

OFFICIAL STATEMENT
Dated May 1, 2003

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS: Moody's: "Aaa"
S&P: "AAA"
Fitch: "AAA"
(See "BOND INSURANCE" and
"RATINGS" herein.)

In the opinion of Co-Bond Counsel (as hereinafter defined), assuming continuing compliance by the City of San Antonio, Texas (the "City") after the date of issuance of the Bonds (defined below) with certain covenants in the ordinance described herein and subject to the matters discussed herein under "TAX MATTERS", interest on the Bonds (i) will be excludable from the gross income of the owners thereof for the purpose of calculating federal income tax under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as described herein, corporations (see "TAX MATTERS" herein).



\$44,150,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL DRAINAGE UTILITY SYSTEM
REVENUE BONDS, SERIES 2003

Dated: May 1, 2003

Due: February 1, as shown herein

The \$44,150,000 "City of San Antonio, Texas Municipal Drainage Utility System Revenue Bonds, Series 2003" (the "Bonds") are being issued by the City pursuant to the laws of the State of Texas, including Section 402.051, Texas Local Government Code, as amended, and an ordinance adopted by the City Council of the City on May 1, 2003 (the "Ordinance") to (i) finance the costs of drainage improvements, including the acquisition, construction, and repair of structures, equipment, and facilities for the City's "Municipal Drainage Utility System" (the "System"); and (ii) pay costs of issuance of the Bonds (see "THE BONDS - Authority for Issuance of the Bonds" herein).

Interest on the Bonds will accrue from May 1, 2003 and will be payable on February 1 and August 1 of each year, commencing August 1, 2003, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. So long as the Securities Depository is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by The Bank of New York Trust Company of Florida, N.A., Jacksonville, Florida, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants (defined herein), which will in turn remit such principal and interest to the Beneficial Owners (see "THE BONDS - Book-Entry-Only System" herein).

The Bonds are payable solely from and secured by a first lien on and a pledge of the Revenues (defined herein) of the System (see "SECURITY FOR THE BONDS" herein).

The City is obligated to pay the Bonds and the interest thereon solely from the Revenues and neither the full faith and credit nor any physical properties of the City, including the System, are pledged to the payment of the principal of or interest on the Bonds. The Ordinance does not create a mortgage on, or other security interest in, the real or personal property constituting the System. The issuance of the Bonds does not directly or indirectly or contingently obligate the City to levy any form of taxation whatsoever therefor, or to make any appropriation for their payment, except from the Revenues. Neither the full faith and credit nor the taxing power of the City nor the State of Texas or any political subdivision thereof is pledged to payment of the Bonds.



The scheduled payment of principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation (see "BOND INSURANCE" herein).

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE BONDS.

The Bonds are offered for delivery, when, as, and if issued and received by the initial purchasers thereof (the "Underwriters") and subject to the approving opinion of the Attorney General of the State of Texas and the delivery of the legal opinion of Fulbright & Jaworski L.L.P., San Antonio, Texas, and Escamilla & Poneck, Inc., San Antonio, Texas, as Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their Co-Counsel, Akin Gump Strauss Hauer & Feld LLP, San Antonio, Texas, and Loeffler Jonas & Tuggey LLP, San Antonio, Texas (see "LEGAL MATTERS" herein). It is expected that the Bonds will be available for initial delivery through the services of DTC on or about May 21, 2003.

SIEBERT BRANDFORD SHANK & CO., LLC
FIRST SOUTHWEST COMPANY

RBC DAIN RAUSCHER
JPMORGAN CHASE & CO.

**STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS,
AND CUSIP NUMBERS**

\$44,150,000

**Municipal Drainage Utility System Revenue Bonds, Series 2003
(Due February 1)**

\$28,615,000 Serial Bonds

<u>Stated Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP No. ⁽¹⁾</u>	<u>Stated Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP No. ⁽¹⁾</u>
2004	\$1,035,000	2.000%	1.150%	796311AA6	2014	\$1,520,000	4.000%	3.840%	796311AL2
2005	1,065,000	3.500	1.480	796311AB4	2015	1,580,000	4.000	3.950	796311AM0
2006	1,100,000	3.500	1.800	796311AC2	2016	1,645,000	4.000	4.050	796311AN8
2007	1,140,000	3.500	2.250	796311AD0	2017	1,715,000	4.000	4.140	796311AP3
2008	1,185,000	4.000	2.600	796311AE8	2018	1,790,000	5.000	4.210	796311AQ1
2009	1,230,000	4.000	2.900	796311AF5	2019	1,885,000	5.000	4.300	796311AR9
2010	1,280,000	4.000	3.230	796311AG3	2020	1,980,000	5.000	4.380	796311AS7
2011	1,335,000	4.500	3.490	796311AH1	2021	2,080,000	5.000	4.460	796311AT5
2012	1,400,000	4.500	3.610	796311AJ7	2022	2,190,000	5.000	4.520	796311AU2
2013	1,460,000	4.000	3.740	796311AK4					

\$15,535,000 Term Bonds

\$7,220,000 4.625% Term Bonds maturing February 1, 2025 at 98.179%, CUSIP No. 796311AW8.

\$8,315,000 4.750% Term Bonds maturing February 1, 2028 at 98.988%, CUSIP No. 796311AX6.

OPTIONAL REDEMPTION. The Bonds having stated maturities on and after February 1, 2014 are subject to optional redemption in whole or in any part thereof, in the principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2013 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Redemption Provisions” herein).

MANDATORY SINKING FUND REDEMPTION. The Bonds maturing on February 1, 2025 and February 1, 2028 are subject to mandatory sinking fund redemption (see “THE BONDS – Redemption Provisions” herein).

* * *

⁽¹⁾ CUSIP numbers have been assigned to the Bonds by Standard & Poor’s CUSIP Service Bureau, A Division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the Bonds. Neither the City, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

**CITY OF SAN ANTONIO, TEXAS
CITY ADMINISTRATION**

CITY COUNCIL:

<u>Name</u>	<u>Years on City Council at May 1, 2003</u>	<u>Term Expires</u>	<u>Occupation</u>
Ed Garza, Mayor	5 Years, 11 Months	May 31, 2003	Land Planner
Bobby Perez, District 1	3 Years, 11 Months	May 31, 2003	Attorney
John H. Sanders, District 2	1 Year, 11 Months	May 31, 2003	Retired, Texas Workforce Commission
Antionette (Toni) Moorhouse, District 3	1 Year, 11 Months	May 31, 2003	Non-Profit Programs Management
Enrique (Kike) Martin, District 4	1 Year, 11 Months	May 31, 2003	Contracting Security Officer, USAFR
Nora X. Herrera*, District 5	3 Months	May 31, 2003	Councilmember
Enrique M. Barrera, District 6	3 Years, 4 Months	May 31, 2003	Retired, Texas Workforce Commission
Julián Castro, District 7	1 Year, 11 Months	May 31, 2003	Attorney
Bonnie Conner, District 8	3 Years, 11 Months	May 31, 2003	Real Estate Management
Carroll Schubert, District 9	1 Year, 11 Months	May 31, 2003	Attorney
David Carpenter, District 10	3 Years, 11 Months	May 31, 2003	Small Business Owner

*Appointed February 6, 2003 by the City Council to fill a vacancy for the duration of an unexpired term left after the resignation of a Councilmember.

CITY OFFICIALS:

<u>Name</u>	<u>Position</u>	<u>Years with City of San Antonio at May 1, 2003</u>	<u>Years in Current Position</u>
Terry M. Brechtel	City Manager	12 Years, 3 Months	2 Years, 1 Month
J. Rolando Bono	Deputy City Manager	25 Years, 6 Months	2 Years, 1 Month
Melissa Byrne Vossmer	Assistant City Manager	5 Years	5 Years
Travis M. Bishop	Assistant City Manager	24 Years, 8 Months	3 Years, 3 Months
Christopher J. Brady	Assistant City Manager	6 Years, 9 Months	3 Years, 3 Months
Jelynn L. Burley	Assistant City Manager	19 Years, 1 Month	11 Months
Frances A. Gonzalez	Assistant to the City Manager	18 Years, 7 Months	2 Years, 6 Months
Roland Lozano	Assistant to the City Manager	22 Years, 10 Months	2 Years, 1 Month
Erik J. Walsh	Assistant to the City Manager	8 Years, 11 Months	2 Years, 1 Month
Andrew Martin	City Attorney	1 Year, 1 Month	1 Year, 1 Month
Yolanda Ledesma	Acting City Clerk	31 Years, 7 Months	6 Months
Louis A. Lendman	Director of Management and Budget	14 Years, 7 Months	2 Years, 5 Months
Thomas G. Wendorf	Director of Public Works	4 Years, 1 Month	2 Years, 4 Months
Milo Nitschke	Director of Finance	8 Years, 7 Months	2 Years

CONSULTANTS AND ADVISORS:

Co-Bond Counsel

Fulbright & Jaworski L.L.P., San Antonio, Texas
and Escamilla & Poneck, Inc., San Antonio, Texas

Co-Certified Public Accountants

KPMG L.L.P., San Antonio, Texas,
Leal & Carter, P.C., San Antonio, Texas,
and Robert J. Williams, CPA, San Antonio, Texas

Co-Financial Advisors

Coastal Securities, San Antonio, Texas
and Estrada Hinojosa & Company, Inc., San Antonio, Texas

USE OF INFORMATION IN THE OFFICIAL STATEMENT

This Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances will this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a promise or guarantee by the Co-Financial Advisors or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth hereinafter the date of this Official Statement.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE ISSUE AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates, and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

The agreements of the City and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Neither the City, the Co-Financial Advisors, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

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OFFICIAL STATEMENT
Relating to the
\$44,150,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL DRAINAGE UTILITY SYSTEM
REVENUE BONDS, SERIES 2003

INTRODUCTION

This Official Statement of the City of San Antonio, Texas (the “City”) is provided to furnish information in connection with the sale of the “City of San Antonio, Texas Municipal Drainage Utility System Revenue Bonds, Series 2003” (the “Bonds”), in the aggregate principal amount of \$44,150,000. This Official Statement describes the Bonds, the Ordinance (defined herein), and certain other information about the City and the System (defined herein). All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Capitalized terms not defined herein have the meanings ascribed thereto in the Ordinance (see “APPENDIX B – Selected Provisions of the Ordinance” attached hereto). Copies of such documents may be obtained from the City at the Office of the Director of Finance, City Hall Annex, 506 Dolorosa, San Antonio, Texas 78204 and, during the offering period, from the City’s Co-Financial Advisors, Coastal Securities, 600 Navarro, Suite 350, San Antonio, Texas, 78205, or Estrada Hinojosa & Company, Inc., 100 W. Houston Street, San Antonio, Texas 78205, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

The City is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State, including the City’s Home Rule Charter (the “City Charter”). The City was incorporated in 1837, and first adopted its City Charter in 1951. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and ten Council Members (the “City Council”). The terms of the Mayor and the Council Members are two years and subject to term limitations imposed in the City Charter. The City Manager is the chief administrative officer for the City. Some of the services that the City provides include public safety (police and fire protection), streets and drainage, electric, gas, water and sanitary sewer utilities, health and social services, culture/recreation, public transportation, public improvements, planning and zoning, and general administrative services. The Census 2000 compiled by the U.S. Census Bureau estimated the City’s population at 1,144,646. The City’s Department of Planning estimated a City population of 1,251,200 at December 31, 2002. The City currently covers approximately 448.9 square miles.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement will be filed with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the City’s undertaking to provide certain information on a continuing basis.

PURPOSES AND PLAN OF FINANCING

Purposes of the Bonds

The Bonds are being issued to provide funds to: (i) finance the costs of making drainage improvements, including the acquisition, construction, and repair of structures, equipment, and facilities for the City’s Municipal Drainage Utility System (the “System”); and (ii) pay the costs of issuing the Bonds.

(The remainder of this page is intentionally left blank.)

Sources and Uses of Proceeds of the Bonds

The following represents a summary of the application of the Bond proceeds and the sources and uses of funds:

Sources of Funds:

Par Amount of Bonds	\$44,150,000.00
Original Issue Premium	813,277.95
Accrued Interest	<u>108,288.19</u>
Total Sources	<u>\$45,071,566.14</u>

Uses of Funds:

Construction Fund Deposit	\$44,328,570.95
Bond Fund Deposit	108,288.19
Costs of Issuance (including Insurance Premium)	340,000.00
Underwriters' Discount	<u>294,707.00</u>
Total Uses	<u>\$45,071,566.14</u>

THE BONDS

General Description

Interest on the Bonds accrues from May 1, 2003 (the "Dated Date"), and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2003. The principal of and interest on the Bonds are payable in the manner described herein under "THE BONDS – Book-Entry-Only System". In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the Registration Books (defined herein) as of the fifteenth day of the month next preceding such interest payment date, by check, mailed first-class postage prepaid, to the address of such person on the Registration Books or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Bonds is a Saturday, a Sunday, a legal holiday, or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close or the United States Post Office is not open for business, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to the City Charter, the general laws of the State, particularly Section 402.051, Texas Local Government Code, as amended, and the ordinance adopted by the City Council on May 1, 2003 authorizing the issuance of the Bonds (the "Ordinance").

Security for the Bonds

General. Pursuant to authority conferred by the Municipal Drainage Utility System Act (Subsection C of Chapter 402, Texas Local Government Code, as amended) (the "Act"), the City Council adopted an ordinance in 1993 declaring the drainage of the City to be a public utility, enabling the City to bill, along with other municipal utility system billings, a separate charge against lots and tracts of benefited property in the City for drainage services. This creation ordinance has been validated pursuant to the provisions of Section 51.003, Texas Local Government Code, as amended. The Revenues (as defined in the Ordinance) of the System are pledged to the payment of the Bonds to the extent and in the manner specified in the Ordinance (see "APPENDIX B – Selected Provisions of the Ordinance").

The Bonds are special and limited obligations of the City, payable solely from and secured by a lien on and pledge of the Revenues. Such pledge securing the Bonds will at all times and in all respects be on a parity with the pledges to secure any Additional Bonds (defined herein) or Credit Agreements (as defined in the Ordinance). Upon

issuance of the Bonds, there will be no other outstanding obligations of the City secured by a lien on and pledge of the Revenues.

Special Obligations. The Bonds are special obligations of the City payable solely from and equally and ratably secured by a first lien on and pledge of the Revenues.

The City is not obligated to pay the Bonds or the interest thereon from any source except from the Revenues and neither the full faith and credit nor any physical properties of the City, including the System, are pledged to the payment of the Bonds. The issuance of the Bonds does not directly or indirectly or contingently obligate the City to levy any form of taxation or to make any appropriation for their payments except from the Revenues. **NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF TEXAS, NOR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS.**

Perfection of Security Interest. Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the pledge of the Revenues thereto, and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Revenues is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Additional Bonds. Subject to satisfying the terms and conditions prescribed therefor, the City has reserved the right to issue additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Revenues (the "Additional Bonds"), in the same manner and to the same extent as the Bonds.

The Ordinance permits the City to issue Additional Bonds for any authorized purpose, including the issuance of refunding bonds. Among the conditions specified for the issuance of such Additional Bonds, the City is required to secure a certificate of the City Manager or the City's Director of Finance to the effect that, according to the books and records of the City, the Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the 18 months, immediately preceding the date of issuance of the Additional Bonds (the date of issuance being the date of delivery of all or a portion of the Additional Bonds to the initial purchasers thereof) are at least equal to (i) 1.25 times the Average Annual Debt Service Requirements for all Bonds Similarly Secured then Outstanding after giving effect to the issuance of the Additional Bonds then being issued. In making a determination of the Revenues, the City Manager or the City's Director of Finance may take into consideration a change in the charges for services afforded by the System that became effective at least sixty days prior to the last day of the period for which Revenues are determined and, for purposes of satisfying the above coverage test relating to Revenues, make a pro forma determination of the Revenues for the period of time covered by the certification based on such change in charges being in effect for the entire period covered by the certificate of the City Manager or the City's Director of Finance (see "APPENDIX B – Selected Provisions of the Ordinance").

Reserve Fund. The City has provided for the creation of the Reserve Fund. The amount to be accumulated and maintained in such fund is an amount at least equal to the Average Annual Debt Service Requirements of both the Bonds and any Additional Bonds issued on a parity therewith (together, the "Bonds Similarly Secured"). The total amount to be accumulated and maintained in the Reserve Fund may be established in whole or in part from the Revenues, the proceeds of the sale or sales of Bonds Similarly Secured, or by depositing to the credit of the Reserve Fund one or more surety bonds or insurance policies issued by a company or institution issuing such bonds or policies in its normal course of business; provided, however, the City is not required to fund the Reserve Fund when Revenues for each Fiscal Year are equal to at least 1.75 times the Average Annual Debt Service Requirements (see "APPENDIX B – Selected Provisions of the Ordinance"). The City will not be required to fund the Reserve Fund upon delivery of the Bonds.

Rate Covenant. In the Ordinance, the City agrees, while any of the Bonds are Outstanding, to establish, maintain, and impose monthly drainage charges for services afforded by the System reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Revenues in each Fiscal Year (i) sufficient to pay the principal of and interest on the Bonds Similarly Secured (including any Credit Agreement) and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the

Bonds Similarly Secured, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the Revenues; (ii) sufficient to pay for all Operating and Maintenance Expenses; (iii) in an amount equivalent to at least 1.25 times the annual Debt Service Requirements for the Fiscal Year on the Bonds Similarly Secured then Outstanding; and (iv) to pay all other indebtedness payable from and/or secured in whole or in part by a lien on and pledge of the Revenues (see “APPENDIX B – Selected Provisions of the Ordinance”).

Flow of Funds. In the Ordinance, the City covenants and agrees that the Revenues (excluding earnings and income derived from investments held in the Bond Fund and the Reserve Fund) will be deposited as collected and designated as a fund maintained at an official depository of the City to be credited on the books and records of the City as the “Drainage Utility System Fund” (the “System Fund”). All Revenues deposited in the System Fund are pledged and appropriated, to the extent required, for the following uses and in the order of priority shown:

First: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Debt Service Requirements on the Bonds Similarly Secured (including any Credit Agreement) as the same becomes due and payable.

Second: To the payment of all necessary and reasonable Operating and Maintenance Expenses.

Third: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the required Reserve Fund balance in accordance with the provisions of the Ordinance or any other ordinance authorizing the issuance of Bonds Similarly Secured.

Amounts remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be transferred to the City’s general fund or used for any other purpose now or hereafter permitted by law.

Redemption Provisions

Optional Redemption. The City reserves the right, at its sole option, to redeem the Bonds stated to mature on or after February 1, 2014, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2013, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The City will determine the maturity or maturities, and the principal amount of the Bonds within each maturity to be redeemed. If less than all of the Bonds within a stated maturity are to be redeemed, the particular Bonds to be redeemed will be selected at random and by lot by the Paying Agent/Registrar.

Mandatory Sinking Fund Redemption. The Bonds maturing on February 1, 2025 and February 1, 2028 (the “Term Bonds”) are subject to mandatory sinking fund redemption in part prior to their stated maturity, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, on the dates and in the principal amounts shown in the following schedule:

<u>Maturity February 1, 2025</u>		<u>Maturity February 1, 2028</u>	
February 1, 2023	\$2,295,000	February 1, 2026	\$2,640,000
February 1, 2024	2,405,000	February 1, 2027	2,770,000
February 1, 2025 (maturity)	2,520,000	February 1, 2028 (maturity)	2,905,000

Approximately 50 days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar will select by lot the numbers of the Term Bonds within the applicable maturity to be redeemed on the next following February 1 from money set aside for that purpose in the Bond Fund. Any Term Bonds not selected for prior redemption will be paid on the date of their stated maturity.

The principal amount of the Term Bonds for a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions can be reduced, at the option of the City, by the principal amount of Term Bonds of like stated maturity which, at least 50 days prior to the mandatory redemption date, (i) have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation or (ii) have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption. At least 30 days prior to the date fixed for any redemption of any Bonds or portions thereof prior to stated maturity, the City must cause written notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Bond or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar (the “Registration Bonds”) on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision must be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Bonds or portions thereof which are to be so redeemed thereby automatically will be treated as redeemed prior to their scheduled maturities, and they will not bear interest after the date fixed for redemption, and they will not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

Denominations. Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any integral multiple thereof). Any Bonds to be partially redeemed may be surrendered in exchange for one or more new Bonds in authorized denominations of the same stated maturity, series, and interest rate for the unredeemed portion of the principal.

Redemption through The Depository Trust Company. The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance, or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants, or the persons for whom DTC Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption (see “THE BONDS – Book-Entry-Only System”).

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Trust Company of Florida, N.A., Jacksonville, Florida (the “Paying Agent/Registrar”). In the Ordinance, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar at all times until the Bonds are duly paid, and the City retains the right to replace the Paying Agent/Registrar.

Successor Paying Agent/Registrar

Provision is made in the Ordinance for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar’s records and act in the same capacity as the previous Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City must be either a qualified national or state banking or financing institution doing business under the laws of the United States of America or of any state and legally authorized to exercise trust powers and to serve as a Paying Agent/Registrar. The successor Paying Agent/Registrar, if any, will be determined by the City. Upon a change in the Paying Agent/Registrar for the Bonds, the City is required to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid.

Transfer, Exchange, and Registration

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be registered, transferred, assigned, and exchanged on the Registration Books only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration, transfer, and exchange will be without expense or service charge to the

registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, transfer, and exchange. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner, to the extent possible, within three business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount, series, and rate of interest as the Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.

Mutilated, Destroyed, Lost, or Stolen Bonds

The City has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

Limitation on Transfer

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Bonds (i) during the period commencing at the close of business on the Record Date (defined herein) and ending at the opening of business on the next interest payment date and (ii) with respect to the Bonds selected for redemption in whole or in part, within 45 days of the date fixed for redemption; provided, however, this limitation is not applicable to the transfer or exchange of the unredeemed balance of the Bonds called for redemption in part.

Defaults and Remedies

The Ordinance does not establish specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of and interest on any Bond when due, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinance, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenant, obligations, or conditions. Such right is in addition to any other rights the registered owners of Bonds may be provided by the laws of the State. Under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. The principal of and interest on the Bonds will not be accelerated upon default and there is no security interest granted in any property owned by the City. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in payment of principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to collect Revenues sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time-consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court), and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel

will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Record Date for Interest Payment

The record date for determining the person to whom the semiannual interest is payable on any interest payment date (the "Record Date") is the fifteenth day of the month next preceding such interest payment date, as specified in the Ordinance. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new Record Date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a Bond appearing on the Registration Books at the close of business on the day next preceding the date of mailing of such notice.

Amendments

The City may, without the consent of or notice to any registered owners of the Bonds, amend, change, or modify the Ordinance as may be required (i) by the provisions of the Ordinance, (ii) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein, or (iii) in connection with any other change which is not to the prejudice of such registered owners. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, change, modify, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, change, modification, or rescission may (i) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof or the rate of interest thereon, change the place or places at or the coin or currency in which any Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds; (ii) give any preference to any Bond over any other Bond; or (iii) reduce the aggregate principal amount of Bonds required for consent to any amendment, change, modification, or waiver.

Defeasance

The Ordinance provides for the defeasance of the Bonds when payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise) is provided by irrevocably depositing with a paying agent in trust (i) money in an amount sufficient to make such payment and (ii) Government Securities certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of the paying agent for the respective series of Bonds. The Ordinance provides that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding or unpaid; provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Payment Record

The City has never defaulted in payments on its bonded indebtedness.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA". The DTC Rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner will give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent/Registrar, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent/Registrar's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the city takes no responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds, the City will have no obligation or responsibility to the DTC Participants or Indirect participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other section of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

THE SYSTEM

Background

The Act provides the statutory authority for municipalities to establish a drainage utility system and to develop a corresponding schedule of charges therefor within the municipality and, in certain circumstances, within the municipality's extraterritorial jurisdiction. This statutory authority was created in order to provide municipalities with a funding source to comply with the federal Environmental Protection Agency's (the "EPA") mandated stormwater quality requirements, as well as to pay local drainage system operating and maintenance costs. Additionally, the revenues resulting from these drainage fees can be pledged to the payment of debt incurred for drainage improvement purposes.

The City currently assesses two drainage fees, known as the "Fee In Lieu of Detention Pond" and the "Stormwater Drainage Service Fee", respectively.

In response to the aforementioned EPA requirements, the City created the System and established its Municipal Drainage Utility Fund (the "System Fund") in September 1997 to capture revenues from, and pay expenditures for services related to the management of, municipal drainage activity. The City, the Texas Department of Transportation – San Antonio Division, and the City-owned utility named the San Antonio Water System ("SAWS"), as co-permittees under the "National Pollutant Discharge Elimination System" ("NPDES"), Permit No. TX58001901 (the "Permit"), are responsible for stormwater runoff quality monitoring and maintenance. The Permit, recently delegated by the EPA to the Texas Commission on Environmental Quality ("TCEQ") for renewal as TPDES Permit No. 04284, is currently in the comment period and will become the permit of record when issued by TCEQ, a draft of which has been distributed for review and comment by the TCEQ.

As a result of the responsibilities arising under the Permit, the City and SAWS entered into an interlocal contract (the "Interlocal Contract") to set forth the specific responsibilities of each entity in accomplishing the implementation of the Permit's requirements.

Under the Interlocal Contract, the City retains overall responsibility relating to its drainage activity. SAWS is obligated to perform certain duties relating to the City's municipal drainage activity, including: (a) instream monitoring, sampling, testing, and analysis; (b) industrial site inspection; (c) water quality modeling on a watershed basis; (d) illicit connection inspection; (e) billing, collection/accounting, and other customer service functions; (f) legal services; and (g) public education. The terms of the Interlocal Contract also require that SAWS annually prepare a work plan and budget, which is approved by the City, detailing specific programs to be undertaken that year and the proposed costs therefor. For Fiscal Year 2002, the amount budgeted by SAWS and approved by the City for these anticipated costs totaled \$2,358,933, for which SAWS is reimbursed from collected drainage fees.

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Fee In Lieu of Detention Pond. The Fee in Lieu of Detention Pond, a one-time assessment levied against developers of land and assessed and collected by the City, is determined by acreage and property use according to the following fee schedule:

One-family (unattached) and two family (duplex) developments
\$1,200.00 per acre or \$750.00 per lot, whichever is less

Residential development – other than one-family and two-family
\$1,600.00 per acre

Non-residential (less than 65% impervious cover)
\$2,600.00 per acre

Non-residential (65% or more impervious cover)
\$3,000.00 per acre

The Fee in Lieu of Detention Pond is not assessed against drainage easements or rights of usage (if either is in a pervious condition) or permanent detention facilities.

Stormwater Drainage Service Fee. The monthly Stormwater Drainage Service Fee is collected by SAWS from its customers pursuant to the terms of the Interlocal Contract. The Stormwater Drainage Service Fee was recently increased by the City Council, such rate increase becoming effective on October 17, 2002. The following schedule depicts the current Stormwater Drainage Service Fees:

<u>Customer Class/Tier</u> <u>Square Foot (SF)</u>	<u>Billing Unit by</u> <u>Per (Gallons) Charge</u>	<u>Billing Unit</u> <u>Per Month Charge</u>
Residential Rates		
Tier 1	0 – 4,999	\$ 2.25
Tier 2	5,000 or more	2.98
Multifamily Rates		
Tier 1	0 – 21,999	\$ 5.01
Tier 2	22,000 – 43,999	15.68
Tier 3	44,000 – 131,999	47.55
Tier 4	132,000 or more	226.28
Commercial/General Rates		
Tier 1	0 – 21,999	\$ 12.83
Tier 2	22,000 – 43,999	35.10
Tier 3	44,000 – 86,999	62.91
Tier 4	87,000 – 131,999	108.42
Tier 5	132,000 or more	239.54
Public Rates		
Tier 1	0 – 21,999	\$ 12.71
Tier 2	22,000 – 43,999	34.76
Tier 3	44,000 – 86,999	62.79
Tier 4	87,000 or more	106.15

The following Tables 1 through 3, provided by the City's Finance Department, contain information on Operating Revenues and Expenditures, Debt Service Requirements and Coverage Ratios, and the historical and projected financial performance for the System.

The System's operating revenues and expenditures are shown below for the past five years.

Table 1 – Condensed Statement of Operations

	Fiscal Year Ending September 30				
	2002	2001	2000	1999	1998
Revenues:					
Stormwater Drainage Service Fee	\$16,609,215	\$16,796,535	\$16,382,310	\$14,245,127	\$13,558,857
Fee In Lieu of Detention Pond	3,077,663	3,838,921	3,710,866	2,695,154	796,222
Miscellaneous	697,758	5,116	821	--	--
Interest Income	200,043	456,175	252,884	186,320	404,693
Transfers from Other Funds	86,875	58,253	290,158	35,443	--
Total Revenues	<u>\$20,671,554</u>	<u>\$21,155,000</u>	<u>\$20,637,039</u>	<u>\$17,162,044</u>	<u>\$14,759,772</u>
Less: Fee In Lieu of Detention Pond Revenues ⁽¹⁾	<u>(3,273,726)</u>	<u>(4,248,473)</u>	<u>(3,902,738)</u>	<u>(2,748,382)</u>	<u>(796,222)</u>
Total Stormwater Revenues Available for Debt Service Requirements	\$17,397,828	\$16,906,527	\$16,734,301	\$14,413,662	\$13,963,550
Expenditures:					
Drainage Improvement	\$16,494,630	\$15,347,661	\$15,471,405	\$14,524,265	\$10,698,741
Maintenance ⁽²⁾	517,124	176,695	156,289	151,803	12,814
Transfers to Other Funds	898,833	3,698,659	2,586,517	1,785,126	2,433,188
Total Expenditures	<u>\$17,910,587</u>	<u>\$19,223,015</u>	<u>\$18,214,211</u>	<u>\$16,461,194</u>	<u>\$13,144,743</u>
Less: Fee In Lieu of Detention Pond Expenditures	<u>(622,124)</u>	<u>(1,153,134)</u>	<u>(240,737)</u>	<u>(651,803)</u>	<u>(12,814)</u>
Total Stormwater Expenditures	\$17,288,463	\$18,069,881	\$17,973,474	\$15,809,391	\$13,131,929
Excess of Stormwater Revenues over Expenditures	\$ 109,365	(\$1,163,354)	(\$1,239,173)	(\$1,395,729)	\$ 831,621
Fund Balance at Beginning of Year	\$10,577,211	\$ 8,981,839	\$ 7,649,066	\$ 7,973,804	\$ 7,595,261
Less: Fee In Lieu of Detention Pond Fund Balance at Beginning of Year	(9,600,226)	(6,504,887)	(2,842,886)	(748,301)	--
Less: Capital Expenditures	(27,406)	(336,613)	(1,090,055)	(1,025,588)	(1,236,486)
Plus: Fee In Lieu of Detention Pond Capital Expenditures	<u>27,406</u>	<u>--</u>	<u>--</u>	<u>1,994</u>	<u>35,107</u>
Stormwater Fund Balance at End of Year	<u>\$ 1,086,350</u>	<u>\$ 976,985</u>	<u>\$ 2,476,952</u>	<u>\$ 4,806,180</u>	<u>\$ 7,225,503</u>

⁽¹⁾ Includes Fee in Lieu of Detention Pond, along with interest and other miscellaneous income related thereto.

⁽²⁾ Includes transfers to SAWS for collection of the Stormwater Drainage Service Fee and to pay the costs of certain designated projects (see "THE SYSTEM - Background").

The ratios of total revenues to the average annual and maximum annual debt service requirements for the System are shown below:

Table 2 – Coverage and Fund Balances

Fiscal Year 2002 Total Revenues Available for Debt Service Requirements	\$17,397,828
Average Annual Debt Service Requirements	\$ 2,972,459
Coverage of Annual Average Debt Service Requirements	5.85x
Maximum Annual Debt Service Requirements for Fiscal Year 2005	\$ 2,974,850
Coverage of Maximum Debt Service Requirements	5.85x

A comparison of the revenues and expenditures for the past five Fiscal Years and the projections for the subsequent five years is shown below.

Table 3 – Historical and Projected System Operating Cashflow

<i>Historical</i> ⁽¹⁾	2002	2001	2000	1999	1998
Stormwater Revenues:					
Gross Operating Revenues	\$16,609,215	\$16,796,535	\$16,382,310	\$14,245,127	\$13,558,857
Gross Non-Operating Revenues	<u>788,613</u>	<u>109,992</u>	<u>351,991</u>	<u>168,535</u>	<u>404,693</u>
Total Stormwater Revenues Available for Debt Service	<u>\$17,397,828</u>	<u>\$16,906,527</u>	<u>\$16,734,301</u>	<u>\$14,413,662</u>	<u>\$13,963,550</u>
<i>Projected</i> ⁽¹⁾⁽²⁾	2003	2004	2005	2006	2007
Stormwater Revenues:					
Gross Operating Revenues	\$21,108,494	\$21,527,121	\$21,634,757	\$21,742,931	\$21,851,645
Gross Non-Operating Revenues	<u>3,460</u>	<u>4,410</u>	<u>4,631</u>	<u>4,862</u>	<u>5,105</u>
Total Stormwater Revenues Available for Debt Service	<u>\$21,111,954</u>	<u>\$21,531,531</u>	<u>\$21,639,388</u>	<u>\$21,747,793</u>	<u>\$21,856,750</u>
Annual Debt Service Requirements	\$ 487,297	\$ 2,973,838	\$ 2,974,850	\$ 2,971,963	\$ 2,972,763
Coverage of Annual Debt Service Requirements	N/A	7.24x	7.27x	7.32x	7.35x

⁽¹⁾ Numbers are at Fiscal Years ending September 30.

⁽²⁾ Projections based upon a 30% increase in Stormwater Drainage Service Fees, which became effective on October 17, 2002.

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Table 4 below shows the Debt Service Requirements payable on the Bonds.

Table 4 – Debt Service Schedule

<u>Fiscal Year</u> <u>Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2003	--	\$ 487,296.88	\$ 487,296.88
2004	\$1,035,000	1,938,837.50	2,973,837.50
2005	1,065,000	1,909,850.00	2,974,850.00
2006	1,100,000	1,871,962.50	2,971,962.50
2007	1,140,000	1,832,762.50	2,972,762.50
2008	1,185,000	1,789,112.50	2,974,112.50
2009	1,230,000	1,740,812.50	2,970,812.50
2010	1,280,000	1,690,612.50	2,970,612.50
2011	1,335,000	1,634,975.00	2,969,975.00
2012	1,400,000	1,573,437.50	2,973,437.50
2013	1,460,000	1,512,737.50	2,972,737.50
2014	1,520,000	1,453,137.50	2,973,137.50
2015	1,580,000	1,391,137.50	2,971,137.50
2016	1,645,000	1,326,637.50	2,971,637.50
2017	1,715,000	1,259,437.50	2,974,437.50
2018	1,790,000	1,180,387.50	2,970,387.50
2019	1,885,000	1,088,512.50	2,973,512.50
2020	1,980,000	991,887.50	2,971,887.50
2021	2,080,000	890,387.50	2,970,387.50
2022	2,190,000	783,637.50	2,973,637.50
2023	2,295,000	675,815.63	2,970,815.63
2024	2,405,000	567,128.13	2,972,128.13
2025	2,520,000	453,237.50	2,973,237.50
2026	2,640,000	332,262.50	2,972,262.50
2027	2,770,000	203,775.00	2,973,775.00
2028	<u>2,905,000</u>	<u>68,993.75</u>	<u>2,973,993.75</u>
Total	<u>\$44,150,000</u>	<u>\$30,648,771.89</u>	<u>\$74,798,771.89</u>

INVESTMENTS

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the “Investment Act”), and in accordance with an Investment Policy approved by the City Council. The Investment Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City has established a written investment policy adopted September 12, 2002. The City’s investments are managed by its Director of Finance, who, in accordance with the Investment Policy, reports investment activity to the City Council.

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) certificates of deposit issued by a state or national bank, savings bank, or a state or federal credit union, which is domiciled in the State, that are guaranteed or insured by the Federal Deposit Insurance Corporation, guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (5) or in any other manner and amount provided by law for City deposits; (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), requires the securities being purchased by the City to be pledged to the City, held in the City’s name, and deposited

at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State; (8) bankers' acceptances with the remaining term of 270 days or less, which will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (9) commercial paper with a stated maturity of 270 days or less and is rated at least "A-1" or "P-1" or the equivalent by either (i) two nationally recognized credit rating agencies or (ii) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (10) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934 or the Investment Act of 1940; (11) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and conforms to the requirements for eligible investment pools; (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or "AAA-m" or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than prohibited obligations described in the next succeeding paragraph, with a defined termination date, and pledged to the City and deposited with the City or a third party selected and approved by the City.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pool is rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the City is required to invest its funds in accordance with written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pool fund groups, and the methods to monitor the market price of investments acquired with public funds and the requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City must submit to the City Council an investment report detailing (1) the investment position of the City; (2) that all investment officers jointly

prepared and signed the report; (3) the beginning market value, any additions and changes to market value, the fully accrued interest, and the ending value of each pooled fund group; (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period; (5) the maturity date of each separately invested asset; (6) the account or fund or pooled fund group for which each individual investment was acquired; and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

Additional Provisions

Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (i) receive and review the City's investment policy, (ii) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (iii) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Current Investments

At December 31, 2002, investable City funds, in the approximate amount of \$886,567,792, were 85.23% invested in obligations of the United States, or its agencies and instrumentalities, and 12.85% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 1.92% of the City's portfolio includes the convention center debt service reserve fund of \$16,999,830, which is invested in a fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and the City's investment policy objectives are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.03% of their book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

GENERAL LITIGATION AND CLAIMS

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages alleging that the City caused personal injuries and wrongful deaths, class actions and promotional

practices, various claims from contractors for additional amounts under construction contracts, property tax assessments, and various other liability claims. The amount of damages in most of the pending lawsuits are capped under the Texas Tort Claims Act; therefore, the potential liability for all such lawsuits, assessments, and various other claims is approximated at \$10.5 million and is included in the reserve recorded in the City's Insurance Reserve Fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits, including pursuit of any and all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such lawsuits.

In the opinion of the City Attorney, it is improbable that the lawsuits now outstanding against the City could become final in a timely manner so as to have a material adverse financial impact upon the City.

Information regarding various lawsuits against the City is included at Footnote 11, entitled "Commitments and Contingencies", to the City's Comprehensive Annual Financial Reports for Fiscal Year Ended September 30, 2002, excerpts of which are included in Appendix C attached hereto. In addition, the City provides the following information not contained in said Appendix C regarding cases.

Edwards Aquifer Sierra Club v. City of San Antonio, et al. In June 1996, Sierra Club filed a lawsuit against thirteen large users of water from the Edwards Aquifer, which included the City. Sierra Club sought temporary and permanent injunctive relief to limit the amounts of water withdrawn from the Edwards Aquifer in order to protect endangered species. In addition, Sierra Club sought injunctive relief against federal agencies to require the agencies to consult with the Fish & Wildlife Service before conducting any further activities in the Edwards Aquifer region.

In August 1996, the District Court granted Sierra Club's request for temporary injunction. The City appealed the District Court's decision, arguing that the District Court should abstain from acting and allow the legislatively-created Edwards Aquifer Authority ("EAA") to manage groundwater usage. The Fifth Circuit reversed the District Court's decision and remanded the case for further proceedings. Sierra Club filed a Writ of Certiorari to the United States Supreme Court, which was denied in January 1998.

In late March 2002, a number of Defendants filed Motions to Dismiss or Motions for Summary Judgment. The City's Motion urges dismissal on several grounds including Lack of Prosecution and the Burford Abstention Doctrine. The Sierra Club has filed a motion for non-suit.

Criminal Investigations

On October 10, 2002, the U.S. Attorney's Office announced indictments against Councilmen John H. Sanders and Enrique Martin on charges of conspiracy to commit bribery, bribery, and aiding and abetting. The indictments allege that the two Councilmen voted to award a contract to a certain San Antonio based law firm in exchange for cash payments. The federal grand jury has also subpoenaed Mayor Garza and seven other City Council members in connection with the investigation.

On October 22, 2002, the Bexar County District Attorney's Office announced an indictment against Councilman Enrique Martin on charges of conspiracy to commit the following: organized criminal activity, bribery, bid rigging, tampering with government records, abuse of official capacity, money laundering, felony theft, aggravated perjury, and tampering with witnesses; and the commission of theft, abuse of official capacity, and bribery, in connection with a certain zoning case before the City Council and award of a certain contract considered by the Board of Trustees of the Alamo Community College District.

The City is unable to otherwise comment on these events or any such investigations. The City is also unable to predict, at this time, how these indictments will be resolved or what actions the federal and state prosecutors, and alternately the courts, will take to resolve these matters. The indicted members of City Council have denied the allegations and have indicated they will defend against these charges.

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the delivery of the opinion of Fulbright & Jaworski L.L.P. and Escamilla & Poneck, Inc., Co-Bond Counsel to the City (“Co-Bond Counsel”), to the effect that interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the “Code”) to the date of initial delivery of the Bonds, of the owners thereof pursuant to section 103 of the Code and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Co-Bond Counsel’s anticipated opinion is included as Appendix D attached hereto. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation will be included in such corporation’s adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a financial asset securitization investment trust, a Real Estate Investment Trust (REIT), or a Real Estate Mortgage Investment Conduit (REMIC). A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code.

In rendering the foregoing opinion, Co-Bond Counsel will rely upon the representations and certifications of the City made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Ordinance by the City subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any “arbitrage profits” and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Co-Bond Counsel will express no other opinion with respect to any other federal, State or local tax, consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations, with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in and a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Co-Bond Counsel’s opinion is not a guarantee of a result, but represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the opinions of Co-Bond Counsel, and Co-Bond Counsel’s opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures, the Service is likely to treat the City as the “taxpayer”, and such owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain Bonds (the “Discount Bonds”) may be less than the stated redemption price at maturity (as defined in section 1272 of the Code and Treasury Regulations thereunder) of the Discount Bonds. An amount equal to the difference between the initial public offering price of each Discount Bond (assuming that at least ten percent of the Discount Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes original issue discount to the initial Purchaser of such Discount Bond. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semi-annual compounding of accrued interest at the yield to maturity on such Discount Bond. The allocation of such original issue discount will generally result in an amount being treated as interest that is different than the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

Such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation’s alternative minimum tax imposed by section 55 of the Code and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in and a financial at securitization trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the sale or other taxable disposition of a Discount Bond prior to stated maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price (as furnished by the Underwriters) of certain Bonds (the “Premium Bonds”), may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that at least ten percent of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bond. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium that is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the Bonds under the

securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency (see “RATINGS” herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the Bonds are valid and legally binding special obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Co-Bond Counsel to the effect that the Bonds are valid and legally binding special obligations of the City and, subject to the qualifications set forth herein under “TAX MATTERS”, the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner, questioning the validity of the Bonds will also be furnished. Co-Bond Counsel has been engaged by, and only represents, the City. In their capacity as Co-Bond Counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas, and Escamilla & Poneck, Inc., San Antonio, Texas have reviewed the information appearing in this Official Statement under the captions “THE BONDS” (except for the information under the captions “Security for the Bonds – Perfection of Security Interest”, “Payment Record”, and “Book-Entry-Only System” as to which no opinion is expressed); “TAX MATTERS”, “REGISTRATION AND QUALIFICATION OF BONDS FOR SALE”, “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS”, “LEGAL MATTERS”, and “CONTINUING DISCLOSURE OF INFORMATION” (except under the caption “Compliance with Prior Undertakings” as to which no opinion is expressed), “APPENDIX B – Selected Provisions of the Ordinance”, and “APPENDIX D - Form of Co-Bond Counsel’s Opinion” to determine whether such information accurately and fairly describes and summarizes the information, material and documents and legal issues referred to therein and is correct as to matters of law and such firms are of the opinion that the information relating to the Bonds, the Ordinance and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and the legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. Co-Bond Counsel have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy and completeness of this Official Statement. No person is entitled to rely upon Co-Bond Counsel’s limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds are

contingent on issuance and delivery of the Bonds. The form of the legal opinion of Co-Bond Counsel is attached hereto as Appendix D. Certain legal matters will be passed upon for the Underwriters by their Co-Counsel, Akin Gump Strauss Hauer & Feld LLP, San Antonio, Texas, and Loeffler Jonas & Tuggey LLP, San Antonio, Texas.

Neither the Attorney General of the State of Texas, Co-Bond Counsel, nor Underwriters' Co-Counsel has been engaged to investigate or verify, and accordingly neither will express any opinion concerning, the financial condition or capabilities of the City or the sufficiency of the security for, or the value or marketability of, the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix E for a specimen of MBIA's policy (the "Policy").

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent/Registrar or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments become due but will not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy will be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence, or any other act or omission of the Paying Agent/Registrar or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent/Registrar or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association will disburse to such owners or the Paying Agent/Registrar payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent/Registrar for the payment of such insured amounts and legally available therefor.

MBIA

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States, and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. New York’s state laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control, and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading “BOND INSURANCE”. Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

MBIA Information

The following document filed by the Company with the Securities and Exchange Commission (the “SEC”) is incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby will be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, will be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly, and special reports, information statements, and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company’s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2002, June 30, 2002, and September 30, 2002), are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody’s Investors Service, Inc. (“Moody’s”) rates the financial strength of MBIA “Aaa”.

Standard & Poor’s, A Division of The McGraw-Hill Companies, Inc., (“S&P”) rates the financial strength of MBIA “AAA”.

Fitch Ratings (“Fitch”) rates the financial strength of MBIA “AAA”.

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell, or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event MBIA is unable to fulfill its contractual obligation under the Policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

RATINGS

Moody’s, S&P, and Fitch have rated the Bonds “Aaa”, “AAA”, and “AAA”, respectively, based on the final delivery of the Policy on the date of initial delivery of the Bonds (see “BOND INSURANCE” herein). An explanation of the significance of such ratings may be obtained from Moody’s, S&P, or Fitch. The ratings of the Bonds by Moody’s, S&P, and Fitch reflect only the views of said companies at the time the ratings are given, and the City makes no representation as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody’s, S&P, and Fitch if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

Under Texas law, including, but not limited to, Chapter 103, Texas Local Government Code, as amended, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant, and must file each audit report with the City Clerk. The City’s fiscal records and audit reports are available for public inspection during the regular business hours of the City Clerk. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Open Records Act, Chapter 552, Texas Government Code, as amended. Thereafter, any person may obtain copies of these documents upon submission of a written request to the City Clerk, City of San Antonio, Texas, 100 Military Plaza, San Antonio, Texas, 78205, and upon paying the reasonable copying, handling, and delivery charges for providing this information.

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 1 through 3 and in Appendix C attached hereto. The City will update and provide this information within six months after the end of each Fiscal Year, commencing September 30, 2003. The City will provide the updated information to each Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) and to any State Information Depository (“SID”) that is designated by the State and approved by the staff of the United States Securities and Exchange Commission.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City’s Fiscal Year ends September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its Fiscal Year. If the City changes its Fiscal Year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. Neither the Bonds nor the Ordinance makes any provision for liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports”. The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board.

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of the Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State as a SID. The address of the Municipal Advisory Council is 600 West 8th Street, Austin, Texas, 78701, or Post Office Box 2177, Austin, Texas, 78768-2177, and its telephone number is (512) 476-6947.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

This continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering, as well as such changed circumstances, and (2) either (i) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorize such an amendment) of the outstanding Bonds consent to such amendment or (ii) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment

will not materially impair the interest of the registered owners and Beneficial Owners of the Bonds. The City may also repeal or amend the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The City has complied in all material respects with all of its previous continuing disclosure agreements in accordance with the Rule.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, including, but not limited to, the information under the heading “THE BONDS – Security for the Bonds” and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City’s actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherent subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, regulatory circumstances and conditions, and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions of future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

CO-FINANCIAL ADVISORS

Coastal Securities and Estrada Hinojosa & Company, Inc. (the “Co-Financial Advisors”) are employed by the City in connection with the issuance of the Bonds and, in such capacity, have assisted the City in the preparation of certain documents related thereto. The Co-Financial Advisors’ fee for service rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

The Co-Financial Advisors have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City’s records and from other sources which are believed to be reliable, including financial records of the City and other entities which may be subject to interpretation. No guarantee is made by the Co-Financial Advisors as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinions as to the completeness and accuracy of the information contained in this Official Statement.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price of \$44,668,570.95, plus accrued interest. The Underwriters’ obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed from time to time by the Underwriters.

The Underwriters have reviewed the information in this Official Statement in accordance with their responsibilities to investors under federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the Underwriters will be furnished a certificate, executed by proper officers of the City, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Official Statement and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last financial statements of the City appearing in the Official Statement.

AUTHORIZATION OF THE OFFICIAL STATEMENT

This Official Statement has been approved as to form and content and the use thereof in the offering of the Bonds was authorized, ratified, and approved by the City Council on the date of sale, and the Underwriters will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the City.

* * *

This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Rule.

/s/ Ed Garza
Mayor, City of San Antonio, Texas

ATTEST:

/s/ Yolanda Ledesma
Acting City Clerk, City of San Antonio, Texas

APPENDIX A

CITY OF SAN ANTONIO GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

This Appendix contains a brief discussion of certain economic and demographic characteristics of the City of San Antonio, Texas (the “City” or “San Antonio”) and of the metropolitan area in which the City is located. Although the information in this Appendix has been provided by sources believed to be reliable, no investigation has been made by the City to verify the accuracy or completeness of such information.

Population and Location

The Census 2000, prepared by the U.S. Census Bureau, found a City population of 1,144,646. The City’s Department of Planning estimated the City’s population at 1,251,200 for the calendar year ending December 31, 2002. The U.S. Census Bureau ranks the City as the third largest in the State of Texas and the ninth largest in the United States.

The City is the county seat of Bexar County, which has a population of 1,392,931 according to the Census 2000. The City’s Department of Planning estimated Bexar County’s population at 1,512,800 for the calendar year ending December 31, 2002 for Bexar County. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo, respectively.

The following table provides, as of April 1 for the years shown, the population of the City, Bexar County, and the San Antonio Metropolitan Statistical Area (“MSA”), which includes Bexar County and portions of, Comal Wilson, and Guadalupe Counties:

Year	City of San Antonio	Bexar County	San Antonio MSA
1920	161,399	202,096	238,639
1930	231,542	292,533	333,442
1940	253,854	338,176	376,093
1950	408,442	500,460	542,209
1960	587,718	687,151	736,066
1970	654,153	860,460	888,179
1980	786,023	988,971	1,088,881
1990	935,933	1,185,394	1,324,749
2000	1,144,646	1,392,931	1,592,383

Sources: U.S. Census Bureau; City of San Antonio, Department of Planning.

Area and Topography

The area of the City has increased through numerous annexations, and now contains approximately 448.9 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 788 feet above mean sea level.

Annexation Plan

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 448.8961 square miles, and having a fiscal year 2003 total market valuation of \$46.390 billion. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as well as an opportunity to enhance the City’s fiscal position. Planned annexations by the City are currently under consideration.

At its November 20, 2002 meeting, the City Council annexed, effective December 31, 2002, five areas for inclusion within the City for full purposes, adding 18.7031 square miles of land to the City's total area. At that same meeting, the City Council also annexed, effective January 5, 2003, six areas for inclusion within the City for limited purposes. The areas annexed for limited purposes will add, upon full purpose annexation, a total of 56.9656 square miles of land to the City's total area; however, they are not currently included within the calculation of the City's total area given the possibility of de-annexation three years from the date of initial annexation. (See "- Limited Purpose Annexation" below).

Limited Purpose Annexation

The City annexed for limited purposes, effective January 5, 2003, six areas south of San Antonio. Limited purpose annexation allows the City to extend regulatory authority for the limited purposes of applying its planning, zoning, health, and safety ordinances to specified areas. The City may not impose a property tax in such areas until the property is annexed for full purposes, which generally occurs within three years after limited purpose annexation.

As a requirement of Section 43.123, Texas Local Government Code, as amended, the City is publishing a planning study and regulatory plan regarding the proposed limited purpose annexation areas. The planning study addresses projected levels of development in the next ten years with and without annexation of such areas, issues regarding (and the public benefits of) annexation, economic and environmental impact of annexation, and proposed zoning for the specified areas. The regulatory plan outlines development regulations and the respective dates of future, full purpose annexation.

Annexation Legislation

In 1999, the Texas Legislature passed Chapter 1167, Acts of the 76th Legislature, Regular Session, 1999 (the "Annexation Act"), changing the manner in which Texas municipalities can annex land. Under the Annexation Act (such requirement now codified at Section 43.052, Texas Local Government Code), municipalities must prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted.

The City Council, at its September 19, 2002 meeting, adopted a three-year annexation plan for the City identifying 13 areas for either limited or full purpose annexation, as required by the Annexation Act, of which 11 areas were annexed in the manner described in "Annexation Plan" above. The City Council added 13 areas identified for annexation by December 31, 2005.

Form of Government and Administration

The City's Home Rule Charter (the "City Charter"), providing for a council-manager form of government (the "City Council") was adopted in 1951. On five separate occasions since that time, first in November 1974, then again in January 1977, May 1991, May 1997, and November 2001, the City Charter has been amended. Significant amendments to the City Charter include the 1991 passage of provisions limiting service by the Mayor and members of the City Council to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990's and charged with conducting a comprehensive review of the City Charter resulted in the May 1997 passage of five propositions, each containing numerous amendments to the City Charter. The most recent amendments to the City Charter occurred in 2001 and included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's advice and/or confirmation.

The City Council is composed of 11 elected members, with 10 members elected from single-member districts, while the Mayor is elected at large. Because of the aforementioned term-limits, City Council members and the Mayor each serve a maximum of four years. The terms of all elected officials currently sitting in office expire in May 2003. The City Manager, the City's chief administrative officer, is appointed by and serves at the pleasure of the City Council.

Services

The full range of services the City provides to its constituents includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers the promotion of convention and tourism and participation in economic development programs high priorities. The funding sources from which these services are provided include ad valorem, sales, and hotel/motel tax receipts, federal and state grants, user fees, bond proceeds, tax increment financing, and other sources.

In addition to the above described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport, parking, stormwater, and solid waste operations.

Electric and gas services to the San Antonio area are provided by City Public Service (“CPS”), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 16 generating unit electric system and the gas system that serves the San Antonio area. CPS’s operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City’s fiscal year ending September 30, 2002 were \$165,118,018.

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System (“SAWS”), another City-owned and operated utility. In addition to these services, SAWS contracted with the City to provide certain stormwater services thereto and it manages and develops water resources in and around the San Antonio region. SAWS is in its eleventh year as a separate, consolidated entity that addresses the City’s water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City’s fiscal year ended September 30, 2002 were \$6,116,065.

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, agribusiness, manufacturing, financial business, telecommunications, telemarketing, insurance, and mineral production. Support for these economic activities is demonstrated by the City’s commitment to its on-going infrastructure improvements and development and its dedicated work force. Total employment in the San Antonio MSA for February 2003 was 778,600, which is 23,800, or 3.15%, more jobs than the February 2002 total of 754,800. Service, trade, and government represent the largest employment sectors in the San Antonio MSA. Medical and bio-medical, tourism, and the military represent the largest industries in San Antonio. The City serves as a major insurance center in the southwest United States and is the headquarters location for several insurance companies. According to the Texas Workforce Commission, San Antonio’s ten largest private sector employers, reported September 2002, are: Administaff, Inc., Baptist Health System, Citicorp Data Systems, Inc., Columbia HCA Healthcare Corp., H.E.B. Grocery Company, Labor Ready Central LP, SBC Communications, Inc., United Services Automobile Association, Wal-Mart Associates, Inc., and West Telemarketing Corp. The five largest publicly traded companies in the City, ranked by revenues, are SBC Communications, Inc., Valero Energy Corp., Clear Channel Communications, Inc., Tesoro Petroleum Corp., and Harte-Hanks Inc., according to the San Antonio Business Journal Book of Lists 2003.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains the largest industry segment in the San Antonio economy, according to the San Antonio Greater Chamber’s Economic Impact Study, 2001. The industry is diversified, with related industries such as research, pharmaceuticals, manufacturing, and insurance contributing approximately the same economic impact as health services. The total economic impact from this industry sector totaled approximately \$11.5 billion in 2001. The industry provided nearly 98,000 jobs, or approximately 14% of the City’s total workforce. The healthcare and bioscience industry’s annual payroll in 2001 approached \$3.5 billion, up 16% from

1998. The 2001 average annual wage of City workers was \$30,652, compared to \$34,352 for healthcare and bioscience employees. These 2001 economic impact figures represent growth of 5% over the previous year, or approximately \$570 million. In addition, the industry grew by 17% over the four years preceding the date of the aforementioned economic impact study.

Health Care. The 900-acre South Texas Medical Center (the “Medical Center”) has 10 major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over \$2.3 billion as of January 2002. As of January 2002, approximately 24,800 Medical Center employees provided care for over 3.3 million outpatients and approximately 98,000 inpatients. Physical plant values representing the original investments in physical facilities and equipment (less depreciation) held relatively steady at \$1.7 billion. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects already in progress total \$136 million. Projects planned for the next five years will add an additional estimated \$165 million to present physical plant and equipment values.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the “UT Health Science Center”) with its five professional schools awarding more than 50 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UT Health Science Center oversees the new, federally-funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. An extension campus is under construction in Laredo, Texas.

There are numerous other medical facilities outside the boundaries of the Medical Center, including 25 short-term general hospitals, two children’s psychiatric hospitals, and two state hospitals. There are three Department of Defense hospitals, one of which is located in the Medical Center (as hereinafter described).

Military Health Care. San Antonio has three major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center (“BAMC”) conducts treatment and research in a new, 1.5 million square foot facility at Fort Sam Houston U.S. Army Base, providing health care to nearly 600,000 military personnel and their families. BAMC is a major trauma center and contains the world-renowned Institute of Surgical Research Burn Center. BAMC also conducts bone marrow transplants in addition to more than 600 ongoing research studies.

Wilford Hall Medical Center (“Wilford Hall”) is the largest medical facility of the U.S. Air Force. In addition to providing health care to military personnel and their families, Wilford Hall is a major trauma center that handles emergency medical care for approximately one-fourth of the City’s emergency patients. Wilford Hall provides medical education for the majority of its physician and dental specialists and other health professionals, conducts clinical investigations, and offers bone marrow and organ transplantation.

Audie L. Murphy Memorial Veterans Hospital, located in the Medical Center, is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, the Audie L. Murphy Research Services (which is dedicated to medical investigations), and the new Frank Tejeda VA Outpatient Clinic (which serves veterans located throughout South Texas).

Bio-Medical Research and Development. Research and development are important areas that strengthen San Antonio’s position as an innovator in the bio-medical field, with total research economic impact exceeding \$681.7 million annually.

The Texas Research Park (the “Park”) is the site for the University of Texas Institute of Biotechnology, the Cancer Therapy and Research Center’s Institute for Drug Development, dozens of new biotechnology-related companies, and will soon include the South Texas Centers for Biology and Medicine. The Park has over \$100 million invested in its facilities and equipment and generates more than \$200 million in economic activity for the City each year. The Park is owned and operated by the Texas Research Park Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation. SBC Communications, Inc. recently donated \$1.8 million to the Park for a 7,000 square foot, state-of-the-art teleconferencing building that will link all facilities at the Park to the UT Health Science Center and the University of Texas San Antonio (“UTSA”).

The Southwest Foundation for Biomedical Research, which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the United States, and is internationally renowned. The Southwest Foundation for Biomedical Research has a full time staff of 65 doctoral degree recipients, a technical staff of 102, and an administrative and supporting staff of 165 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities.

The UT Health Science Center has been a major bioscience research engine since its inception, with strong research groups in cancer, cancer prevention, diabetes, drug development, geriatrics, growth factor and molecular genetics, heart disease, stroke prevention, and many other fields. One of its latest achievements is the establishment of the Children's Cancer Research Center, endowed with \$200 million from the State of Texas's tobacco settlement. The UT Health Science Center, along with the Cancer Therapy and Research Center, forms the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

UTSA houses the Cajal Neuroscience Research Center, which is funded by \$11 million in ongoing grants and is tasked with training students in research skills while they perform basic neuroscience research on subjects such as aging and Alzheimer's disease. UTSA is also the recipient of more than \$35 million for its new School of Bioengineering.

A number of highly successful private corporations, such as Mission Pharmacal, DPT Laboratories, Ltd., and ILEX Oncology, Inc., operate their own research and development groups and act as guide posts for numerous biotech startups, bringing new dollars into the area's economy. A notable example of the results of these firms' research and development is ILEX Oncology, Inc., which has developed eight of the last 11 cancer drugs approved for general use by the Federal Drug Administration.

Tourism

The City's diversified economy includes a significant sector relating to the visitor industry. The City receives approximately 8 million visitors each year, up from approximately 7.6 million in 1997 and 6.9 million in 1995. A recent study sponsored by the San Antonio Area Tourism Council approximated that, on an annual basis, these visitors spend \$2 billion in the local economy and generate a total economic impact of more than \$4 billion. The list of attractions in the San Antonio area includes, among many others, the Alamo, and other sites of historic significance, the River Walk, two major theme parks (SeaWorld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs.

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Conventions. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows convention activity at December 31 for the years indicated:

Calendar Year	Conventions	Attendance	Number of Room Nights ¹	Estimated Dollar Value ²
1993	1,597	576,720	976,732	\$ 472,229,870
1994	1,647	488,979	947,753	400,385,785
1995	1,536	512,045	982,045	419,272,687
1996	1,391	575,668	959,543	471,368,472
1997	1,502	571,950	944,807	468,324,099
1998	1,497	607,890	1,038,472	547,642,022
1999	1,511	552,234 ³	938,992	497,502,088
2000	1,321	515,483 ³	921,495	464,393,480
2001	1,022	524,743 ³	903,034	472,735,721
2002	1,218	609,036	987,912	548,674,442

¹ Reflects both those initiated by the Convention and Visitors Bureau and those reported by the Hotel Community.

² For the years of 1993 through 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the International Association of Convention and Visitors Bureaus (“IACVB”) which reflected the average expenditure of \$818.82 per convention and trade show delegate. Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 IACVB Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP which reflected the average expenditure of \$900.89 per convention and trade show delegate.

³ The decline in Convention Center activity occurred due to disruptions during construction at the Convention Center, which is now complete.

Military Installations

The military represents a principal component of the City’s economy. Three major military installations are currently located in Bexar County, including Lackland Air Force Base (“Lackland AFB”), Fort Sam Houston U.S. Army Base (“Fort Sam”), and Randolph Air Force Base (“Randolph AFB”). In addition, the property of Brooks Air Force Base (“Brooks AFB”), a fourth major military installation, was transferred from the United States Air Force (the “Air Force”) to the City on July 22, 2002, as part of the Brooks City-Base Project (“Brooks City-Base”). The total military employment associated with the three active military installations and Brooks City-Base, (formerly Brooks AFB), approximates 73,189 military, civilian, and guard reserve part-time personnel, an annual aggregate payroll of \$2.9 billion, and a total economic impact of \$4.8 billion.

Military Base Redevelopment. On July 13, 2001, Kelly Air Force Base (“Kelly AFB”) officially closed and the land and facilities were transferred to the Greater Kelly Development Authority (“GKDA”), a City Council-created organization responsible for overseeing the base’s redevelopment into a business and industrial park. The new business park, known as KellyUSA, is focused on: (i) establishing an intermodel logistics distribution center promoting Inland Port San Antonio and international trade primarily with Mexico and Central and South America and (ii) becoming both a renowned international aviation overhaul and repair center and a manufacturing center for the City. KellyUSA assets, including roads, buildings, and an 11,400-foot runway for commercial air operations, are valued at \$1.8 billion. To further the redevelopment goals, GKDA has completed over \$105 million in new construction and facility upgrades over the past two years including a new 123,000 square foot hangar for Boeing and a new office building (which is currently leased at 94% of capacity). In addition, GKDA has planned a \$108.6 million capital improvement program for the next five years, including the demolishing of 1.2 million square feet in unusable facilities. As of June 2002, these efforts had resulted in the retention of 7,000 military and the creation of over 5,400 new commercial jobs. GKDA has also executed 60 leases totaling approximately 4.4 million square feet of the space available with tenants such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Dynamics, General Electric, and Pratt & Whitney. An additional 2.4 million square feet of space has been leased back to the Air Force for its continued use.

Brooks City-Base is a collaborative effort between the Air Force and the City designed to retain the Air Force missions and jobs at Brooks AFB, improve Air Force mission effectiveness, assist the Air Force in reducing its support operating costs, and promote and enhance economic development on Brooks AFB and in the surrounding

community. Both the City and the Air Force are partnering to utilize City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park ("Brooks Technology & Business Park"), a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology. Brooks Technology & Business Park was officially established on July 22, 2002, with the transfer of the 1,310 acres of land and improvements comprising Brooks AFB to the City Council-established organization, Brooks Development Authority ("BDA"), with the Air Force becoming Brooks Technology & Business Park's anchor tenant and leasing back additional facilities, as necessary, to perform its missions. The City is now providing municipal services to Brooks Technology & Business Park and has been providing fire and police services thereto since October 2001. Base electric, gas, and water utilities have been transferred by the BDA to the City-owned utilities, CPS and SAWS, respectively. The BDA is also contracting with Grubb & Ellis, a national real estate developer and property management firm, to manage Brooks Technology & Business Park facilities and to facilitate the attraction of new tenants and jobs.

Despite the official closure of Kelly AFB in July 2001, the level of military-related employment has remained stable over the past 12 months due to growth and expansion of missions at Lackland AFB and Fort Sam. The City, in partnership with the Greater San Antonio Chamber of Commerce, community volunteers, Bexar County, and community stakeholders, has formed a Military Missions Task Force (the "Task Force") to continue working with local military installations to improve their military value, strengthen partnerships with local institutions, and to help attract new missions and jobs to San Antonio. With another round of base closure and realignment scheduled for 2005, the community has been proactive in strengthening the value of its military installations through unique initiatives like the Brooks City-Base project and the Fort Sam leasing project discussed below. The Task Force will continue to facilitate the success of these projects and to develop new partnership initiatives with the military bases.

Fort Sam has also initiated leasing activities to reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the United States Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center ("BAMC") and two other buildings at Fort Sam. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, have been vacant for some time and are presently in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants. On September 17, 2002, the Army announced that it would be relocating U.S. Army South from Puerto Rico to Fort Sam in 2003, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately \$200 million. The Army has negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the old BAMC, clearing the way for renovation to begin on these historic facilities. The continued success of this unique public-private partnership at Fort Sam is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP. This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army intends to extend the public-private partnership initiative to include other properties at Fort Sam currently available for redevelopment.

Other Major Industries

Aerospace Industry. The aerospace industry's annual economic impact to the City is \$2.5 billion, a figure which represents five percent of the City's economy. This industry provides over 10,000 jobs, with employees earning total annual wages totaling over \$370 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Randolph AFB and Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, Southwest Airlines, FEDEX, UPS, and others. The industry in San Antonio is very diversified with continued growth in air passenger service, air cargo, maintenance repair and overhaul ("MRO") and general aviation. San Antonio International Airport has added four new non-stop passenger routes in the past 12 months and currently has flights to 30 non-stop destinations, with new charter service to Mexico available in March 2003. Stinson is at 100% occupancy rate and has a tenant waiting list for facilities. A Stinson Master Plan was approved by the City Council in October 2002 and is pending approval by the Federal Aviation Administration. At

KellyUSA, the MRO business is strong as tenants such as Boeing and Lockheed continue to secure long term government contracts. KellyUSA is also working to add air cargo activity, having completed an Air Cargo Study and Strategic Plan in June 2002. This study also provided San Antonio International Airport with an Air Cargo Strategic Plan that includes recommendations on expanding the existing and growing air cargo business created primarily by UPS, FEDEX, and Airborne Express operations. In June 2002, the innovative Alamo Area Aerospace Academy (“AAAA”) graduated its first class of high school students, with 15 of the 25 seniors in the class finding employment with local aerospace employers. The fiscal year 2003 class of 127 commenced in August 2002. This innovative workforce initiative provides high school juniors and seniors a dual-credit aerospace curriculum taught by the Austin Community College District and offers paid summer internships with local employers.

Aerospace Research and Development. Brooks Air Force Base 311th Human Systems Wing’s School of Aerospace Medicine, long active in research and development related to aviation and human systems, conducts research related to human effectiveness in aviation and is opening a new aircraft sustainability laboratory that will conduct research and development applicable to commercial aviation.

The Southwest Research Institute is one of the original and largest independent, nonprofit, applied engineering and physical sciences research and development organizations in the United States, serving industries and governments around the world in the engineering and physical sciences. Southwest Research Institute has contracts with the Federal Aviation Administration, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. Southwest Research Institute occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 2,700 scientists, engineers, and support personnel.

Information Technology Industry. The Information Technology (“IT”) industry is one of the fastest growing sectors of the local economy. With an overall economic impact of approximately \$3.4 billion, the IT industry represents about 7% of the San Antonio economy. Its economic impact has tripled since 1990 and doubled since 1995. The IT industry includes two major types of activity: (i) the production and sale of various types of computer products and (ii) computer/data processing services. The annual payroll among the IT industry’s estimated 11,500 employees totals approximately \$500 million. Not captured in this employment number is an additional 4,600 employees of the Air Intelligence Agency, located in San Antonio, which is the premier IT agency for the Air Force and the Department of Defense. The success of the AAAA prompted the community to establish a similar academy for IT, which began in August 2002 with an enrollment of 81 high school juniors. The City is focused on leveraging its IT industry assets to serve the nation in developing and implementing the initiatives of the federal Homeland Security Act.

Sources: The Greater San Antonio Chamber of Commerce; San Antonio Medical Foundation; City of San Antonio, Department of Economic Development and Convention and Visitors Bureau.

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Growth Indices

San Antonio Electric and Gas Customers.

<u>For the Month of December</u>	<u>Electric Customers</u>	<u>Gas Customers</u>
1993	493,763	292,111
1994	504,810	295,092
1995	516,679	297,654
1996	528,302	299,140
1997	538,729	301,044
1998	548,468	301,842
1999	560,628	302,991
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503

Source: CPS (defined herein).

San Antonio Water System Average Customers per Fiscal Year.

<u>Fiscal Year Ended May 31¹</u>	<u>Water Customers²</u>
1993	253,902
1994	257,733
1995	266,308
1996	269,405
1997	273,276
1998	270,897
1999	279,210
2000	285,887
2001	292,136
2002	298,215

¹ On April 3, 2001, the SAWS (defined herein) Board of Trustees approved the changing of SAWS' fiscal year from a year-end of May 31 to December 31.

² Excluding SAWS irrigation customers.

Source: SAWS.

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Construction Activity

Set forth below is a table showing building permits issued for construction within the City at December 31 for the years indicated:

Calendar Year	Residential Single Family		Residential Multi-Family ¹		Other ²	
	Permits	Valuation	Permits	Valuation	Permits	Valuation
1993	2,858	\$ 194,055,482	91	\$ 34,177,025	12,151	\$ 388,857,924
1994	3,987	262,104,759	166	68,097,513	13,302	421,324,638
1995	3,925	237,796,446	353	63,396,919	11,588	420,001,031
1996	4,306	261,540,367	171	64,282,630	9,055	578,225,607
1997	4,240	257,052,585	155	42,859,473	8,170	717,988,779
1998	5,630	363,747,169	85	23,194,475	8,193	892,766,648
1999	5,771	398,432,375	404	157,702,704	9,870	911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271

¹ Includes two-family duplex projects.

² Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.
Source: City of San Antonio, Department of Development Services.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

	Calendar Year					
	2002	2001	2000	1999	1998	1997
Amarillo	\$ 44,201,183	\$ 43,357,043	\$ 42,474,995	\$ 40,781,524	\$ 39,276,557	\$ 37,611,600
Arlington	42,293,256	65,948,096	65,264,427	60,092,585	57,095,137	54,923,300
Austin	110,208,923	117,393,240	117,818,293	104,915,700	94,261,113	85,272,735
Dallas	192,542,321	210,130,838	215,412,071	198,740,061	189,502,534	173,592,271
El Paso	47,465,776	46,876,210	45,970,014	43,603,400	41,414,498	39,097,126
Fort Worth	72,632,487	72,975,421	71,543,992	68,142,426	64,116,910	57,778,025
Houston	334,122,179	337,540,694	321,095,967	308,508,700	296,149,172	270,268,332
Irving	38,810,594	43,188,105	44,773,277	42,773,277	37,198,548	33,805,687
Plano	45,309,249	47,327,003	47,325,948	40,483,049	36,058,044	32,420,190
SAN ANTONIO	153,207,656	151,422,401	133,360,785	126,060,252	117,583,252	108,526,967

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County, encompassing in the aggregate, 41 high schools, 74 middle schools, and 230 elementary schools. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. In addition, Bexar County has 92 accredited private and parochial schools at all education levels. In San Antonio, there are seven accredited universities and four public community colleges, excluding business and professional schools, which had a combined enrollment of 83,344 students for the Fall 2002 semester.

Source: Texas Education Agency.

Employment Statistics

The following table shows current employment estimates by industry in the San Antonio MSA for the period of February 2003, as compared to the prior periods of January 2003 and February 2002.

Employment by Industry.

San Antonio MSA*	February 2003	January 2003	February 2002
Natural Resources and Mining	2,400	2,400	2,400
Construction	39,400	39,400	40,800
Manufacturing	46,300	45,900	48,100
Trade, Transportation, and Utilities	130,400	131,800	129,600
Information	23,000	23,200	25,300
Financial Activities	58,500	58,500	57,200
Professional and Business Services	86,500	85,600	83,300
Educational and Health Services	96,600	95,300	93,300
Leisure and Hospitality	79,200	76,600	76,400
Other Services	27,900	27,500	27,100
Government	<u>137,700</u>	<u>134,900</u>	<u>135,700</u>
Total Nonagricultural	727,900	721,100	719,200

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio MSA, Texas, and the United States for the period of February 2003, as compared to the prior periods of January 2003 and February 2002.

Unemployment Information (all estimates are in thousands).

San Antonio MSA*	February 2003	January 2003	February 2002
Civilian Labor Force	821.2	814.4	794.3
Number of Employed	778.6	770.0	754.8
Number of Unemployed	42.6	44.4	39.5
Unemployment Rate %	5.2%	5.5%	5.0%
Texas (Actual)*	February 2003	January 2003	February 2002
Civilian Labor Force	10,841.8	10,817.2	10,586.5
Number of Employed	10,126.4	10,082.7	9,934.1
Number of Unemployed	715.4	734.5	652.4
Unemployment Rate %	6.6%	6.8%	6.2%
United States (Actual)**	February 2003	January 2003	February 2002
Civilian Labor Force	145,693.0	145,301.0	144,266.0
Number of Employed	136,433.0	135,907.0	135,443.0
Number of Unemployed	9,260.0	9,394.0	8,823.0
Unemployment Rate %	6.4%	6.5%	6.1%

* Source: Labor Market Information Department, Texas Workforce Commission (model-based methodology).

** Source: Bureau of Labor Statistics, U.S. Department of Labor (Current Population Survey).

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Employers with 500 or More Employees in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties)

Construction

<u>FIRM</u>	<u>PRODUCT/SERVICE</u>	<u>FIRM</u>	<u>PRODUCT/SERVICE</u>
Bexar Electric Company	Electrical Contractor	Design Electric	Electrical Contractor
CCC Group, Inc.	Industrial Contractor	H.B. Zachry Company	General Contractor

Finance, Insurance, Real Estate

<u>FIRM</u>	<u>PRODUCT/SERVICE</u>	<u>FIRM</u>	<u>PRODUCT/SERVICE</u>
American Funds Group	Mutual Funds & Investments	Humana	Health Maintenance Organization
Bank of America	Commercial & Individual Banking	Security Service Federal Credit Union	Federal Credit Union
Benefit Planners, LLP	Insurance Claims Administrators	USAA	Insurance/Financial Services
Frost National Bank	Financial Services	Wells Fargo Bank	Financial Services
Homeside Lending, Inc.	Financial Institution	World Savings	Savings Deposits And Loans

Government

<u>FIRM</u>	<u>PRODUCT/SERVICE</u>	<u>FIRM</u>	<u>PRODUCT/SERVICE</u>
Bexar County	County Government	San Antonio Fire Department	Fire Department
Brooks Air Force Base	Military Installation	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	San Antonio Police Department	Police Department
Fort Sam Houston	Military Installation	San Antonio Water System	Water Utility
Lackland AFB/37th Training Wing	Military Installation	Texas Dept of Transportation	Road Construction/Maintenance
Randolph Air Force Base	Military Installation	VIA Metropolitan Transit	Urban Public Transportation

Manufacturing

<u>FIRM</u>	<u>PRODUCT/SERVICE</u>	<u>FIRM</u>	<u>PRODUCT/SERVICE</u>
Alamo Concrete Products	Ready-Mix Concrete	Lancer Corporation	Beverage Dispensing Equipment
Bausch & Lomb, Ray-Ban	Sunglasses	Levi Strauss & Company	Menswear
Cardell Cabinetry	Cabinetry	Martin Marietta Materials SW, Inc.	Limestone, Asphalt & Concrete
Clarke American	Check Printing	Miller Curtain Company	Curtains & Draperies
Coca-Cola Bottling Co. of the SW	Soft Drinks, Beverage Service	Motorola	Industrial Electronics
Crest Door Systems	Metal Doors	Philips Semi Conductors	Semi-Conductors
DPT Laboratories, Inc.	Pharmaceuticals & Cosmetics	Plains Cotton Cooperative Assn.	Retail Textile Products
Fairchild Dornier Corporation	Regional Airliners/Corporate Jets	RCC Coozie Inc	Promotional Products
Flextronics Enclosures	Metal Stamping & Plastics	S.M.I.-Texas	Steel Manufacturing & Fabrication
Friedrich Air Conditioning Co.	Air Conditioning	San Antonio Express-News	Newspaper Publishers
Kinetic Concepts, Inc.	Specialty Medical Products	San Antonio Shoe, Inc. (SAS)	Mens and Ladies Shoes
L & H Packing Company	Meat Processing	Sony Semiconductor San Antonio	Semiconductors

Medical

<u>FIRM</u>	<u>PRODUCT/SERVICE</u>	<u>FIRM</u>	<u>PRODUCT/SERVICE</u>
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	Health Care System
Alamo Medical Health Group	Psychiatric Clinic	Methodist Specialty & Transplant Hospital	Hospital & Health Care Services
Baptist Health System	Hospital & Health Education	Metropolitan Hospital	General Acute Health Care
University Health System	Health Care And Trauma Services	PacifiCare	Health Plans: HMO, PPO, POS
Brooke Army Medical Center	Military Health Care	San Antonio State Hospital	Mental Illness Treatment
Caremark Prescription Service	Mail Order Pharmacy	San Antonio State School	Mental Health Residential Care
Center for Health Care Services	Mental Health Case Management	Santa Rosa Health Care Corp.	Medical & Surgical Hospitals
Christus Santa Rosa Health Care	Hospital & Health Care	South Texas Veterans Health Care System	General Acute Care Hospital
Guadalupe Valley Hospital	Hospital Services	UT Health Science Ctr. at S.A.	Professional Health Education
McKenna Memorial Hospital	Health Care		

(Table continues on next page.)

Employers with 500 or More Employees in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties) (continued)

Retail

<u>FIRM</u>	<u>PRODUCT/SERVICE</u>	<u>FIRM</u>	<u>PRODUCT/SERVICE</u>
Aaron Rents and Sells Furniture	Office & Residential Furniture	Frontier Enterprises	Restaurant Headquarters
Curtis C. Gunn, Inc.	Auto Dealerships	H.E.B. Grocery Company	Groceries & Distributing HQ
Den-Tex Central Inc (dba Denny's)	24-Hour, Full Service Restaurants	Holt Company of Texas	Construction Equipment
Dillard's Department Stores	Department Stores	QVC San Antonio Inc.	Electronic Customer Service Ctr.
Foley's	Department Store	Super S Foods	Grocery Store

Service

<u>FIRM</u>	<u>PRODUCT/SERVICE</u>	<u>FIRM</u>	<u>PRODUCT/SERVICE</u>
Administaff, Inc.	Professional Employer Organization	North East ISD	Public School System
Advantage Rent-A-Car	Vehicle Rental	Northside ISD	Public School System
Alamo Community College District	Education & Workforce Dev.	Onpoint	Customer Service Centers
Alamo Heights ISD	Education	Parent/Child Inc.	Early Childhood Development
Allen Tharp & Associates	Caterers	Pinkerton, Inc.	On-Site Security
Archdiocese of San Antonio	Catholic Offices	San Antonio College	Public Community College
Beamer Inc	Family Restaurants	San Antonio ISD	Public School System
Bill Miller Bar-B-Q Ent., Ltd.	Food Service And Catering	Sanitors, Inc.	Commercial Janitorial Services
Cadbeck Staffing	Employee Leasing Seville	Schertz-Cibolo-Universal City ISD	Public School System
Calling Solutions, Inc.	Contract Telemarketing	Sears Teleservice Center	Customer Service Consultants
Citicorp	National Service Center	Seguin ISD	Public School System
Comal ISD	Education	South San Antonio ISD	Public School System
Donald E Kierman	Telecommunications Consultant	Southside ISD	Public School System
East Central ISD	Public School System	Southwest ISD	Public School System
Edgewood ISD	Public School System	Southwest Research Institute	Research & Development
Four Seasons Resort & Club	Hotels	St. Mary's University	Private University
Goodwill Industries of S.A.	Vocational Services	Staff Professionals Inc.	Employee Leasing Service
Harlandale ISD	Public Education	Standard Aero US	Aircraft Engine Repair
Hasslocher Enterprises, Inc.	Restaurant Chain/ Food Distributors	Taco Cabana, Inc.	Restaurants
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Tansec Inc./Div. of Radio Shack	C-C TVs, Alarms, Monitors
Hyatt Hill Country Resort	Hotel Resort	Texas Department of Human Svcs.	Social Services
International Business Benefits	Employee Leasing Service	The Psychological Corporation	Test Publishers
Judson ISD	Public School System	Trinity University	Private University
Luby's Cafeterias, Inc.	Cafeterias	University of Texas at San Antonio	Public University
Marriott Rivercenter Hotel	Hotel	Wendy's of San Antonio Inc.	Fast Food Restaurants
Morningside Ministries, Inc.	Retirement Home	West Teleservices Corporation	Telemarketing Service Vendor
New Braunfels ISD	Public School System	Westaff	Full Service Staffing

Transportation, Communications, Utilities

<u>FIRM</u>	<u>PRODUCT/SERVICE</u>	<u>FIRM</u>	<u>PRODUCT/SERVICE</u>
AT&T	Long Distance & Local Telephone	Time Warner Cable	Cable TV & Internet Service
City Public Service	Natural Gas & Electric Service	Trans Met Inc.	Freight Transpiration
Clear Channel Communications	TV & Radio Stations, Advertising	U.S. Postal Service	Postal Services
Qwest Communications	Telecommunications	United Parcel Service	Parcel Delivery
SBC Communications Inc.	Telecommunications	Valero Energy Corporation	Crude Oil Refinery
SBC Southwestern Bell	Telecommunications	WorldCom	Telecommunications
Southwest Airlines	Air Service And Transportation		

Wholesale

<u>FIRM</u>	<u>PRODUCT/SERVICE</u>	<u>FIRM</u>	<u>PRODUCT/SERVICE</u>
CARQUEST Auto Parts (Straus-Frank Co.)	Automotive Replacement Parts	SYGMA Network, Inc.	Distributor
		Tyson Foods, Inc.	Food Service

Source: January 2002, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

San Antonio Electric and Gas Systems

History and Management

The City acquired its gas and electric utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Holding Company Act of 1935. The bond ordinances authorizing the issuance of debt by the City's electric and gas systems (the "EG Systems") establish management requirements and provide that the complete management and control of the EG Systems is vested in a Board of Trustees consisting of five U.S. citizens permanently residing in Bexar County, Texas, known as the "City Public Service Board of San Antonio, Texas" (referred to herein as the "CPS Board," the "Board," or "CPS"). The City's Mayor is a voting member of the CPS Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the CPS Board and its conduct of the management of the EG Systems.

Vacancies in membership on the CPS Board are filled by majority vote of the remaining members. New CPS Board appointees must be approved by a majority vote of the City Council. A vacancy, in certain cases, may be filled by the City Council. The members of the CPS Board are eligible for re-election at the expiration of their first five-year term of office to one additional term only. In 1997, the City Council ordained that CPS Board membership should be representative of four geographic quadrants of Bexar County, as established by the City Council. New CPS Board members considered for approval by the City Council will be those whose residence is in a quadrant that provides such geographic representation.

The CPS Board is vested with all of the powers of the City with respect to the management and operation of the EG Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in its various bond ordinances, except regarding rates and issuances of bonds, notes, or commercial paper. The CPS Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements, and additions to the EG Systems, and to adopt rules for the orderly handling of CPS's affairs. It is empowered to appoint and employ all officers and employees and must obtain and keep in force a "blanket" type employees' fidelity and indemnity bond covering losses in the amount of not less than \$100,000. The management provisions of the bond ordinances also grant the City Council authority to review CPS Board action with respect to research, development, and planning.

In 1997, CPS established a 15-member Citizens Advisory Committee (the "CAC") to enhance its relationship with the community and to address the City Council's goals regarding broader community involvement. The primary goal of the CAC is to provide recommendations from the community on the operations of CPS for use by the CPS Board and CPS staff. Representing the various sectors of the City, the CAC encompasses a broad range of customer groups in order to identify their concerns and articulate their issues. CAC members meet monthly to advise CPS about community issues and concerns with regard to the EG Systems and other aspects of CPS' business.

Service Area and Rates

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this service area has been approved by the Public Utility Commission of Texas (the "PUCT").

CPS is currently the exclusive provider of electric service within the service area, including the provision of energy service to some federal military installations located within the service area that own their own distribution facilities. As discussed below under "Electric Utility Restructuring in Texas; Senate Bill 7", until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition, CPS has the sole right to serve as the retail electric energy provider in its service area. On April 26, 2001, the City Council passed a resolution stating that it is not the City's intent to opt-in to the deregulated electric market beginning January 1, 2002. SB 7, adopted by the Texas Legislature in 1999, provides that "opt-in" decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the respective authority of the CPS Board and the City Council, any decision to opt-in to competition must be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers

would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to retail competition in the Electric Reliability Council of Texas (“ERCOT”), the synchronous interconnected electric system that operates wholly within Texas. CPS has the option of acting in the role of the “Provider of Last Resort” (hereinafter defined) for its service area in the event it chooses to opt-in. (See “*Electric Utility Restructuring In Texas; Senate Bill 7.*”)

In addition to the area served at retail rates, CPS sells electricity at wholesale rates for resale to the Floresville Electric Light & Power System, the City of Hondo, the City of Castroville, and the City of Brady. Renewal contracts have been entered into with the first three long-term wholesale customers in recent years. In August 2000, the City of Brady awarded CPS a three-year contract to become its wholesale electric provider, effective December 2002. CPS believes that it will have additional opportunities to enter into long-term wholesale electric power agreements. The requirements under the existing and any new wholesale agreements would be firm energy obligations of CPS.

The CPS gas system serves the City and its environs, although there is no certificated CPS gas service area. In Texas, no legislative provision or regulatory procedure exists for certification of gas service areas and CPS competes against other entities on the periphery of its service area.

Under the Texas Public Utility Regulatory Act (“PURA”), significant original jurisdiction over the rates, services, and operations of electric “public utilities” is vested in the PUCT. Since the deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT’s jurisdiction over the investor-owned utility companies primarily encompasses only the transmission and distribution function. PURA generally excludes from its coverage “municipally-owned utilities”, such as CPS, but the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a municipally-owned utility like the EG Systems has exclusive jurisdiction to set rates applicable to all services provided by the municipally-owned electric utility, with the exception of wholesale transmission rates. Unless and until the City Council chooses to opt-in to retail competition, CPS retail service rates are subject to appellate but not original rate regulatory jurisdiction by the PUCT in areas outside the City limits which CPS serves. To date, no appeal of CPS electric rates has ever been filed. CPS is not subject to the annual gross receipts fee payable by public utilities. (See “*Electric Utility Restructuring in Texas; Senate Bill 7*” herein.)

The Texas Railroad Commission (“TRC”) has significant original jurisdiction over the rates, services, and operations of “gas utilities”. “Municipally-owned utilities” such as CPS are generally excluded from regulation by the TRC. CPS retail gas service rates are subject to appellate but not original rate regulatory jurisdiction by the TRC in areas outside the City limits which CPS serves. To date, no appeal of CPS gas rates has ever been filed.

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA (“PURA95”), municipally-owned utilities, including CPS, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers.

The 1999 Texas Legislature amended the PURA to expressly authorize rate authority over municipal utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method. In general, the postage stamp method results in transmission payments to other transmission owners by a compact urban utility like CPS that exceed its receipts from other utilities for their use of its own transmission facilities. CPS’s wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS’s input to the calculation of the statewide postage stamp pricing method. The PUCT’s rule also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service.

Electric Utility Restructuring in Texas; Senate Bill 7. During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition which began in 2002, continues electric transmission wholesale open access, and fundamentally redefines and restructures the Texas electric industry. The following discussion applies primarily to ERCOT, the interconnected portion of the Texas electric grid in which CPS is located.

SB 7 includes provisions that apply directly to municipally-owned utilities (“Municipal Utilities”), such as the CPS electric system, as well as other provisions that will govern investor owned utilities (“IOUs”) and electric co-operatives (“Electric Co-ops”). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy supplier, as well as the retail customers of those Municipal Utilities and Electric Co-ops that elect, on or after that date, to participate in retail electric competition. Provisions of SB 7 that apply to the CPS electric system, as well as provisions that apply only to IOUs and Electric Co-ops are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which the electric system could choose to directly participate in the future.

SB 7 requires IOUs to have separated their retail energy service activities from regulated utility activities by September 1, 2000 and to have unbundled their generation, transmission/distribution, and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies, and possibly operating divisions, that may be owned by a common holding company, but which must operate largely independent of each other. The services offered by such separate entities must be available to other parties on a non-discriminatory basis. Municipal Utilities and Electric Co-ops which opt-in to competition are not required to unbundle their electric system components. CPS is taking the steps necessary to unbundle its pricing structure so that it will be in a position to participate in a competitive market in the event that the CPS Board and the City Council choose to opt-in to competition.

Generation assets of IOUs are owned by “Power Generation Companies”, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they will otherwise be unregulated and may sell electricity at market prices. IOU owners of transmission and/or distribution facilities are “Transmission and Distribution Utilities” and are fully regulated by the PUCT. Retail sales activities are performed by new companies called “Retail Electric Providers” (“REPs”) which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. They buy electricity from Power Generation Companies, power marketers, or other parties and may resell that electricity to retail customers at any location in the State (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). Transmission and Distribution Utilities and Municipal Utilities and Electric Co-ops that have chosen to participate in retail competition are obligated to deliver the electricity to retail customers, and all of these entities are required to transport power to wholesale buyers. The PUCT is required to approve the construction of new Transmission and Distribution Utilities’ transmission facilities, and may order the construction of new facilities to relieve transmission congestion. Transmission and Distribution Utilities are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities’ governing bodies rather than the PUCT. Each type of unbundled company of the formerly bundled IOUs is prohibited from providing services that are provided by the other types of unbundled companies.

Environmental Restrictions of Senate Bill 7. SB 7 also contains specified emissions reduction requirements for certain older electric generating units which would otherwise be exempt from the Texas Commission on Environmental Quality’s (“TCEQ”, formerly the Texas Natural Resource Conservation Commission) permitting program by virtue of “grandfathered” status. Under the bill, annual emissions of nitrogen oxides (“NO_x”) from such units are to be reduced by 50% from 1997 levels, beginning May 1, 2003. The requirements may be met through an emission allowances trading program that has been established by the TCEQ on a regional basis. CPS applied for state permits from the TCEQ, as required for five CPS generating stations, comprising 12 gas-fired units, and the permits are now final. The NO_x reductions required for SB 7 have already begun and NO_x emissions have been reduced by over 45% system-wide from baseline levels. Future additional expenditures may be required by CPS for emission control technology.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation is directed at all units, including CPS’ coal plants. This regulation requires a 50% reduction in NO_x emissions by May 1, 2005. NO_x reductions required for this program have already begun. It is possible that over the upcoming years the Environmental Protection Agency (“EPA”), the

State of Texas, and local air quality districts may issue even more stringent regulations governing emissions from many types of power plants. The Clean Air Act regulation of electric utility emissions may change significantly. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission controls will be required at the coal plants in the near future because the EPA has determined to control mercury from power plants. In addition, the rules could also affect combustion turbines and other types of plants, as well as the costs of purchased power from affected resources. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. While it is too early to determine the extent of any such changes, such changes could have a material impact on the cost of power generated at affected electric generating units.

CPS and other electric utilities are also subject to various existing federal and state laws requiring compliance with environmental rules and regulations. In addition, CPS is also subject to various federal and state laws relating to its facilities as well as various federal and state laws which affect the construction and operation of its facilities.

Response to Competition

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to help make CPS a more efficient and more competitive utility that delivers value to customers and the City. Major parts of the plan include restructuring and unbundling of rates, formulating a wholesale and retail marketing plan, reorganizing CPS along functional lines, and maintaining a debt and asset management program as further discussed below. These efforts will also have the ongoing support of the CPS Governmental Affairs office, located in Austin, Texas, whose primary role is to review proposed federal and state legislative actions affecting the electric industry and to represent CPS interests in these areas.

Debt and Asset Management Program. CPS has developed a debt and asset management program (the “Debt Management Program”) which is designed to lower the debt component of energy costs, maximize the effective use of cash and cash equivalent assets, and enhance its financial flexibility in the future. An important part of the Debt Management Program is debt restructuring through the increased use of variable rate debt and interest rate swaps where feasible. It is anticipated, however, that the net variable rate exposure of CPS will not exceed 20% of its total outstanding debt. The program also focuses on the use of unencumbered cash and available cash flow to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to result in lower interest costs, additional funds for strategic initiatives, and increased net cash flow.

Acquisition of Military Base Facilities. On January 14, 2000, CPS purchased the electric and gas systems of the former Kelly AFB. These facilities include both the area privatized and the portion of Kelly that remains under Air Force control, which is now a part of Lackland AFB. CPS is the full service electric and gas provider for Kelly USA. CPS provides a variety of electric and gas services for Lackland AFB under a General Services Administration contract.

On July 22, 2002, Brooks City-Base was converted to the City. On October 1, 2002, CPS took ownership of the gas and electric infrastructure. All electric and gas metering was completed as of November 15, 2002. CPS is the full service provider for both gas and electric systems.

CPS has submitted a utility privatization proposal to the Army to become the full service provider for the gas and electric infrastructures at both Fort Sam and Camp Bullis. Discussions continue regarding the proposed privatization.

Concerning Randolph AFB and Lackland AFB, the Air Force’s utility privatization proposal for the Texas Regional Demonstration Project has been delayed. CPS submitted its timely response to the Department of Defense’s Request for Proposal. Negotiations are expected to resume in the near future.

Electric System

Generating System. CPS operates 16 electric generating units, three of which are coal-fired and 13 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. CPS also owns 28% of the two-unit nuclear power plant called the South Texas Project (the “STP”).

STP is located on a 12,220-acre site in Matagorda County, Texas, near the Texas Gulf Coast and approximately 200 miles from the City.

Participants in the STP and their shares therein are as follows:

Participants	Percent Ownership	MW
Texas Genco, L.P., Incorporated	30.8%	770
City Public Service	28.0	700
AEP – Texas Central Company	25.2	630
City of Austin - Austin Energy	16.0	400
TOTAL	100.0%	2,500

CPS agreed to participate in the STP in 1973. Full power operating licenses were issued by the Nuclear Regulatory Commission on March 22, 1988, for Unit 1 of the STP and March 28, 1989, for Unit 2, and the Units went into commercial operation on August 25, 1988, and June 19, 1989, respectively.

Since November 1997, the STP has been maintained and operated by a non-profit Texas corporation (“STP Nuclear Operating Company”) financed and controlled by the STP owners pursuant to an operating agreement among such owners and STP Nuclear Operating Company. A five-member board of directors governs the STP Nuclear Operating Company, with each STP owner appointing one member to serve with the STP Nuclear Operating Company’s chief executive officer. All costs continue to be shared in proportion to STP ownership interests.

Joint Operating Agreement. CPS and Texas Genco Holdings, Inc., formerly Reliant Energy, Inc., entered into a joint dispatch agreement effective July 1, 1996. The agreement provides that the two entities will jointly dispatch their generating plants (other than the STP) in order to take advantage of the most efficient plants and favorable fuel prices for each entity. CPS and Texas Genco now share equally the benefits achieved through joint dispatch of their combined portfolio of power plants, and is expected to continue through the term of the agreement, which ends in 2009.

Transmission System. CPS maintains a transmission network for the movement of large amounts of electric power from the generating stations to various parts of the service area and to or from neighboring utilities as required. This network is composed of 138 and 345 kV lines with autotransformers to provide the necessary flexibility in the movement of bulk power.

Distribution System. The distribution system is supplied by 83 substations strategically located on the high voltage 138/345 kV transmission system. Approximately 7,291 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of approximately 285 miles of three-phase distribution lines, 82 miles of three-phase Downtown Network Distribution lines, and 3,060 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground distribution systems. Presently 70,773 street light units are in service, of which the vast majority are high-pressure sodium vapor units.

Gas System

Supply Pressure System. The supply pressure system consists of a network of approximately 200 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 psig and 274 psig, and supplies gas to approximately 221 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. Supervisory Control and Data Acquisition computer system (“SCADA”) monitors the gas pressure and flow rates at many strategic locations within the supply pressure system, and most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Distribution System. The gas distribution system consists of 4,393 miles of 2 to 16-inch steel mains and 1-1/4 to 6-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. Most of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure. Critical areas of the distribution system are remotely monitored by SCADA.

Implementation of New Accounting Policies

During the fiscal year ended January 31, 2002, a number of accounting and reporting changes occurred that affect CPS' financial statements. Most significant were the implementation of GASB Statements 33, Accounting and Financial Reporting for Nonexchange Transactions, and 34, Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments.

A new software system was implemented for customer billing in August 2002.

During the month of November 2002, CPS began recording unbilled revenue to correctly match monthly revenues (billed and unbilled) with the recorded monthly expenses. On average, about 50% of a month's revenues are unbilled as of the end of the month.

Recent Financial Transactions

In May 2003, CPS plans to sell an additional \$250,000,000 in bonds with approval from the CPS Board and the City Council. These Bonds will be variable rate demand obligations. CPS will use the resulting proceeds to reimburse itself for costs associated with prior construction and to pay for EG Systems expansion and improvement

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City Public Service Operating Statement¹

	Fiscal Years Ended January 31				
	2003	2002	2001	2000	1999
Operating Revenues					
Electric	\$ 1,132,788,588	\$ 1,028,259,435	\$ 1,124,414,416	\$ 933,629,335	\$ 909,639,201
Gas	168,704,731	172,586,985	214,555,539	107,019,474	114,236,784
Total Operating Revenue	1,301,493,319	1,200,846,420	1,338,969,955	1,040,648,809	1,023,875,985
Less Unbilled Revenue	58,384,716	0	0	0	0
Operating Revenue Net of Unbilled Revenue	1,243,108,603	1,200,846,420	1,338,969,955	1,040,648,809	1,023,875,985
Operating Expenses ^{2,3}	740,161,094	688,875,837	754,145,321	520,915,135	500,082,793
Net Operating Income	502,947,509	511,970,583	584,824,634	519,733,674	523,793,192
Non-Operating Income (Net) ^{2,4}	28,547,470	49,022,259	50,268,724	39,319,915	57,528,034
Available for Debt Service	\$ 531,494,979	\$ 560,992,842	\$ 635,093,358	\$ 559,053,589	\$ 581,321,226
Other Deductions:					
Depreciation	\$ (217,036,570)	\$ (188,998,839)	\$ (197,322,532)	\$ (165,177,353)	\$ (167,685,579)
Interest on Bonds, Other					
Interest and Debt Expense	(159,138,600)	(170,212,516)	(173,114,847)	(174,328,911)	(187,090,027)
Interest During Construction	6,776,744	7,060,613	12,593,131	13,286,115	5,716,202
Defeasance of Debt	(7,057,173)	-0-	(2,586,215)	-0-	(24,899,770)
Payments and Refunds to City	(172,235,562)	(168,134,295)	(185,005,847)	(145,473,968)	(144,554,899)
Total Other Deductions:	(548,691,161)	(520,285,037)	(545,436,310)	(471,694,117)	(518,514,073)
Available for Debt Service					
Less Other Deductions	(17,196,182)	40,707,805	89,657,048	87,359,472	62,807,153
Unbilled Revenue	58,384,716	0	0	0	0
Net Income	\$ 41,188,534	\$ 40,707,805	\$ 89,657,048	\$ 87,359,472	\$ 62,807,153

¹ Unaudited.

² Excludes income and expense related to the Employee Health & Welfare Plans and decommissioning income.

³ Includes nuclear decommissioning expense and regulatory assessments for all 12-month periods shown.

⁴ Excludes investments fair value adjustment.

Source: CPS.

San Antonio Water System

History and Management

In 1992, the City Council consolidated all of the City's water related functions, agencies, and activities into one agency. This action was taken due to the myriad of issues confronting the City related to the development and protection of its water resources. The consolidation provided the City with a singular, unified voice of representation when promoting or defending the City's goals and objectives for water resource protection, planning, and development with local, regional, state, and federal water authorities and officials.

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which created the City's water system ("SAWS"), a single, unified system consisting of the former City departments comprising the waterworks, wastewater, and water reuse systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a stormwater system and any other water related system to the extent permitted by law.

The City believes that establishing SAWS has helped to reduce the costs of operating, maintaining, and expanding the water systems and has allowed the City greater flexibility in meeting future financing requirements. More importantly, it has allowed the City to develop, implement, and plan for its water needs through one agency.

The complete management and control of SAWS is vested in a board of trustees (the “SAWS Board”) currently consisting of seven members, including the City’s Mayor and six persons who are residents of the City or reside within the SAWS service area. With the exception of the Mayor, all SAWS Board members are appointed by the City Council for four-year staggered terms and are eligible for reappointment for one additional four-year term. Four SAWS Board members must be appointed from four different quadrants in the City, and two SAWS Board members are appointed from the City’s north and south sides, respectively. SAWS Board membership specifications are subject to future change.

Except as specified otherwise in various ordinances authorizing SAWS’ issuance of debt, the SAWS Board has absolute and complete authority to control, manage, and operate SAWS, including the expenditure and application of its gross revenues. With the exception of fixing rates and charges for services rendered by SAWS, the SAWS Board has full power and authority to make rules and regulations governing furnishing to customers, and their subsequent payment for, SAWS’ services, along with the discontinuance of said services upon the customer’s failure to pay for the same. The SAWS Board, to the extent authorized by law and subject to certain various exceptions, also has authority to make extensions, improvements, and additions to SAWS and to acquire by purchase or otherwise properties of every kind in connection therewith.

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.4 million residents. SAWS employs approximately 1,600 personnel and provides maintenance of over 9,000 miles of water and sewer mains.

Historical Water Consumption (Million Gallons).

Fiscal Year Ended	Daily Average	Peak Day	Peak Month	Metered Usage	Metered Water Revenue
5/31/1998	165	271	August	53,592	\$ 69,330,004
5/31/1999	159	308	July	53,520	74,317,726
5/31/2000	162	269	August	57,144	80,606,965
5/31/2001	155	267	July	53,047	73,166,293
12/31/2001 ¹	159	274	July	34,839	50,517,854
12/31/2001 ²	159	274	July	58,097	74,521,211
12/31/2002 ^{2,3}	143	222	August	52,303	77,801,600

¹ On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year-end of May 31 to December 31. Report is for the seven months ending December 31, 2001.

² 12 months ending December 31.

³ Unaudited.

Source: SAWS.

Water Consumption by Customer Class (Million Gallons).

	2002 ^{1,2}	2001 ¹	2001 ³	2001	2000	1999	1998
Residential	28,372	29,003	19,397	28,694	31,008	29,496	29,232
Commercial	11,942	12,371	6,538	12,384	13,536	11,616	11,916
Apartment	7,791	7,718	4,641	7,783	8,148	8,136	8,460
Industrial	2,696	2,670	1,617	2,737	2,724	2,820	2,568
Wholesale	173	531	770	535	624	528	516
Municipal	876	784	350	914	1,104	924	900
	<u>51,850</u>	<u>53,077</u>	<u>33,313</u>	<u>53,047</u>	<u>57,144</u>	<u>53,520</u>	<u>53,592</u>

¹ 12 months ending December 31.

² Unaudited.

³ On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year-end of May 31 to December 31. Report is for the seven months ending December 31, 2001.

Source: SAWS.

System

SAWS includes all water resources, properties, facilities, and plants owned, operated, and maintained by the City relating to supply, storage, treatment, transmission, and distribution of treated potable water, chilled water, and steam (collectively, the “waterworks system”), collection and treatment of wastewater (the “wastewater system”), and treatment and reuse of wastewater (the “water reuse system”) (the waterworks system, the wastewater system, and the water reuse system, collectively, the “system”). The system does not include any “Special Projects,” which are declared by the City, upon the recommendation of the Board, not to be part of the system and are financed with obligations payable from sources other than ad valorem taxes, certain specified revenues, or any water or water-related properties and facilities owned by the City as part of its electric and gas system.

In addition to the water related utilities that the Board has under its control, on May 13, 1993, the City Council approved an ordinance establishing initial responsibilities over the stormwater quality program with the Board and adopted a schedule of rates to be charged for stormwater drainage services and programs. As of the date hereof, the stormwater program is not deemed to be a part of SAWS.

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS’ service area currently extends over approximately 561 square miles, making it the largest water purveyor in Bexar County. SAWS served more than 80% of the water utility customers in Bexar County and provides potable water service to approximately 306,900 customers, which includes residential, commercial, apartment, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 14 elevated storage tanks and 38 ground storage reservoirs with combined storage capacities of 144.7 million gallons. By the end of calendar year 2002, the waterworks system had in place 4,163 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between 6 and 12 inches), and 21,463 fire hydrants distributed evenly throughout the SAWS service area.

Wastewater System. Created by the City Council in 1894 and significantly improved by a 1960 sewer system expansion program, the wastewater system became a part of SAWS in 1992. The wastewater system serves a population in excess of 1.1 million, which includes City residents, 18 governmental entities, and other customers outside the City’s corporate limits, over a 403 square-mile area. The wastewater system is composed of approximately 4,966 miles of mains, three major treatment plants, and one smaller treatment plant, with a combined treatment capacity of 226.7 million gallons per day. In addition, the wastewater system operates and maintains several small satellite facilities that vary in number and are temporary in nature pending completion of interceptor sewers that will connect the flow treated at such facilities to the wastewater system.

Water Reuse System. The Alamo Water Conservation and Reuse District (the “District”) was created in 1989 as a conservation and reclamation district with a purpose of conserving, protecting, distributing, and reusing wastewater in order to augment the supply of water in the Edwards Aquifer (as hereinafter defined). In 1992, it was consolidated into SAWS. SAWS owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and sell non-potable water outside the waterworks system’s and wastewater system’s boundaries. SAWS has developed a water-recycling program utilizing the wastewater flow and expects within two years to make available for various entities up to 35,000 acre-feet (one acre-foot equals approximately 325,821 gallons), or 20% of SAWS’ current use, for non-potable uses, including golf courses and industrial customers that are currently being supplied from the Edwards Aquifer. To facilitate the reuse program, the water reuse system will develop infrastructure to include transmission mains throughout the City, as well as storage and treatment components.

Chilled Water and Steam System. SAWS operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City’s downtown area, provide service to 23 customers. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the Kelly USA industrial area on the City’s west side. Together, chilled water and steam services produced \$11,115,021 in gross revenues for the 2002 fiscal year.

Stormwater System. The stormwater system is described in the body of the Official Statement.

Water Supply

Historically and currently, the City obtains all of its water through wells drilled into a geologic formation known as the Edwards Limestone Formation. The portion of the formation supplying water in the City's area has been the "Edwards Underground Water Reservoir" (the "Edwards Aquifer") and since 1978 has been designated by the Environmental Protection Agency as a sole-source aquifer under the Safe Drinking Water Act. The Edwards Aquifer lies beneath an area approximately 3,600 square miles in size, and including its recharge zone, it underlies all or part of 13 counties, varying from 5 to 30 miles in width and stretching over 175 miles in length, beginning in Bracketville, Kinney County, Texas, in the west and stretching to Kyle, Hays County, Texas, in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it.

Much of the Edwards Aquifer region consists of agricultural land, but it also includes areas of population ranging from communities with only a few hundred residents to the City and other urban areas with well over one million residents. The Edwards Aquifer supplies nearly all the water for the municipal, domestic, industrial, commercial, and agricultural needs in its region. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed by Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

The water level of the Edwards Aquifer has never fallen below the uppermost part of the Edwards Aquifer, even during the extreme and lengthy drought conditions lasting from 1947 to 1956. The maximum fluctuation of water levels at the City's index well has been about 91 feet, with the recorded low of 612 feet above sea level in August 1956 and a recorded high of 703 feet above sea level in June 1992. The historical (1934 to 2001) average water level at the index well in San Antonio is approximately 664 feet above sea level. SAWS sets all pumps at 575 feet to ensure continuous access to Edwards Aquifer water in any anticipated condition.

The Edwards Aquifer is recharged by seepage from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern area. Practically continuous recharge is furnished by spring-fed streams, with stormwater runoff adding additional recharge, as well. The historical annual recharge to the reservoir is approximately 684,700 acre-feet. The average annual recharge over the last four decades is approximately 797,900 acre-feet. The lowest recorded recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known as the "recharge zone". The recharge dams, or flood-retarding structures, slows floodwaters and allows much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

Enhancing the City's Water Supply

The City has relied on the Edwards Aquifer as its sole source of water since the 1800's. Beginning in the 1980's and continuing today, however, the conservation and regulation of the water in the Edwards Aquifer has been the subject of intense scrutiny that has led to both extensive litigation and federal and state agency initiation of regulatory action. In 1993, the Texas Legislature adopted the Edwards Aquifer Authority Act, which created a new regulatory agency to manage withdrawals from the Edwards Aquifer and to protect springflows. Said agency, known as the Edwards Aquifer Authority, is charged with preserving and protecting the Edwards Aquifer in an eight-county region including all of Uvalde, Medina, and Bexar counties, plus portions of Atascosa, Caldwell, Guadalupe, Comal, and Hays counties.

Based upon population and water demand projections, along with various regulatory and environmental issues, the City recognizes that additional water sources will be required to supplement withdrawals from the Edwards Aquifer to enable the City to meet its long-term water needs.

SAWS' Resource Development Department is charged with the responsibility of identifying additional water resources for the City and its surrounding areas. New water resource projects range from optimizing the City's current source through conservation measures to identification and procurement of completely new and independent water sources. These efforts are guided by the 1998 Water Resource Plan, the first comprehensive, widely supported water resource plan for the City, which established programs for formulating and implementing both

immediate and long-term water plans to enhance the City's water supply. In October 2000, the City Council created a permanent funding mechanism (the "Water Supply Fee") to be used for water supply development and water quality protection. The fee is based upon a uniform rate per 100 gallons of water used and is applied to all customers. The Water Supply Fee is projected to generate sufficient revenue to support approximately \$519 million in capital expenditures, as well as sufficient operational funds to conduct the planning, operation, and maintenance of such water resource facilities through 2005. The multi-year financial plan will be updated every three years to ensure sufficient revenues are available to meet the water resource requirements. A listing of scheduled water supply fees for years 2001-2005 is provided in the following table:

Year	Incremental Charge Per 100 Gallons	Total Charge Per 100 Gallons
2001	\$ 0.0358	\$ 0.0358
2002	0.0350	0.0708
2003	0.0230	0.0938
2004	0.0190	0.1128
2005	0.0250	0.1378

Source: SAWS, approved by City Council.

SAWS has determined that the City's water needs can be met through the implementation of an array of programs and projects, including a critical management plan, conservation, agricultural irrigation efficiencies, reuse, surface water, non-Edwards Aquifer groundwater, enhanced recharge capabilities, and aquifer storage and recovery. SAWS has already initiated and/or implemented many such programs in an effort to increase the supply of water available to the City. Development of additional non-Edwards Aquifer supplies as described below should result in predictable and certain water supply necessary to meet anticipated peak demands.

Conservation Program. Beginning in 1994, SAWS has progressively implemented an aggressive water conservation program, which aims to reduce pumping to 140 gallons per person per day by 2008 and ultimately reach 132 gallons per person per day over the next five to ten years. This will be accomplished through a variety of means including consumer education, rebates for water-efficient technologies, system improvements to prevent water loss, and other measures. SAWS has a unique commercial conservation program as well as a strong residential program.

SAWS has also developed partnerships with local authorities, groundwater districts, and purveyors to ensure the conservation messages and programs are available throughout the region. The Water Advisory Group, consisting of cities throughout Bexar County and the Edwards Aquifer region meets regularly to coordinate conservation, drought management, and other water resource policies.

Agricultural Irrigation Efficiency. SAWS has been successful in developing partners throughout the region, as well as with federal agencies, through cost-share programs. The amount of \$500,000 for fiscal year 2002 has been appropriated by the United States Department of Agriculture ("USDA") for the Edwards Aquifer region to assist landowners with agricultural irrigation efficiencies. The System has partnered with the USDA and farmers to acquire efficient irrigation systems in exchange for Edwards Aquifer water rights. The System is also currently working with the Army Corps of Engineers, the Natural Resource Conservation Service, and other local sponsors on programs designed to enhance recharge of the Edwards Aquifer through impoundment structures and brush management.

Water Reuse Program. The System owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside SAWS' water and wastewater service area. SAWS has developed a water reuse program utilizing the wastewater flow. The reuse water system producing approximately 35,000 acre feet per year is now in the fourth year of active construction and approximately 99% complete. SAWS anticipates a delivery of reuse water at or near capacity within two years. Construction efforts have been concentrated on completion of two major branches of the water reuse system serving the eastern and western portions of the City. Acceptance testing of the newly constructed pipeline segments is now underway. SAWS anticipates operation of this program at full capacity within two years, culminating in the conversion to non-potable water uses for those currently using Edwards Aquifer water. Upon completion, SAWS

will deliver up to 35,000 acre feet per year of reuse water for non-potable water uses including golf courses and industrial uses that are currently being supplied from the Edwards Aquifer. This represents approximately 20% of SAWS' current usage. This infrastructure project will have transmission mains throughout the City, as well as storage and treatment components. Reuse water will be delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 40,000 acre-feet per year used by CPS, this is the largest reuse water project in the Bexar County. SAWS has a contract with CPS through 2030 for provision of such reused water. The revenues derived from the CPS contract have been excluded from the calculation of SAWS gross revenues, and are not included in any transfers to the City.

Simsboro Project. On December 30, 1998, a contract for the delivery of up to 60,000 acre-feet of water annually from the Simsboro Aquifer was executed with the Aluminum Company of America ("ALCOA"). At the same time, SAWS acquired the permanent right to produce groundwater from approximately 11,500 acres of land in the Simsboro Aquifer owned by CPS. The ALCOA and CPS contracts collectively constitute the Simsboro Project. Groundwater availability studies conclude that 55,000 acre-feet per year can be sustainable from a combination of groundwater production from both contracts. This project has been included in the approved State Water Plan. The Project is scheduled to begin delivering water in 2015 at an estimated Project cost to the System of \$300 million.

Guadalupe-Blanco River Authority/San Antonio River Authority Project. SAWS joined with San Antonio River Authority to jointly develop a project to deliver approximately 94,000 acre-feet per year of water throughout the San Antonio River basin. In May 2001, the partners executed a contract with the Guadalupe – Blanco River Authority (the "GBRA") for delivery of 70,000 acre-feet of water from the Guadalupe River. The contract provides for delivery of water for 50 years as well as a seven-year period to define specific delivery plans for the project. The diversion for the project is located at the mouth of the Guadalupe River near the community of Tivoli, Texas. This contract provides a substantial volume of water that will be augmented from currently unappropriated surface water rights and groundwater from the Gulf Coast Aquifer. Permits authorizing delivery of the surface water to Bexar County have not yet been obtained. A competing application for the unappropriated flows has been filed by the San Marcos River Foundation (the "SMRF") with the TCEQ, which ruled in March 2003 that it did not have authority to consider or grant such an application and returned it to the SMRF. Capital costs for the 94,000 acre-feet per year project are estimated at \$375 million, with delivery scheduled for 2010-2012.

Capital Improvement Plan

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with tax-exempt commercial paper, impact fees, system revenues, and future bond issues. SAWS has budgeted the following capital improvement projects during calendar year 2003:

- \$12 million is budgeted for the wastewater treatment program to repair/replace/upgrade treatment facilities;
- \$21 million is budgeted for the wastewater collection program to fix deteriorated components of the collection system;
- \$22 million is budgeted to replace sewer and water mains;
- \$20 million is budgeted for the governmental replacement and relocation program;
- \$9 million is budgeted to construct new production facilities; and
- \$68 million is budgeted for water supply development, water treatment, and water transmission projects for new sources of water.

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SAWS anticipates the following capital improvement projects for the five fiscal years listed:

	Fiscal Year Ended December 31					Total
	2003	2004	2005	2006	2007	
Heating & Cooling	\$ 805,200	\$ 854,237	\$ 1,497,692	\$ 441,987	\$ 405,514	\$ 4,004,630
Water Delivery	36,728,000	62,281,704	38,656,310	38,230,540	45,217,369	221,113,923
Wastewater	73,271,177	75,941,910	88,917,928	79,266,772	83,896,781	401,294,568
Water Supply	68,236,380	92,689,920	150,878,192	210,143,533	124,508,450	646,456,475
<i>Total Annual Requirements</i>	<u>\$ 179,040,757</u>	<u>\$ 231,767,771</u>	<u>\$ 279,950,122</u>	<u>\$ 328,082,832</u>	<u>\$ 254,028,114</u>	<u>\$ 1,272,869,596</u>

Project Funding Approach

The following table was prepared by SAWS staff based upon information and assumptions it deems reasonable, and shows the projected financing sources to meet the projected capital needs.

	Fiscal Year Ended December 31				
	2003	2004	2005	2006	2007
Revenues	\$ 20,208,724	\$ 22,478,774	\$ 24,112,840	\$ 28,614,935	\$ 32,361,678
Impact Fees	10,205,000	12,714,660	12,892,666	13,073,163	13,256,187
Debt Proceeds	<u>148,627,033</u>	<u>196,574,337</u>	<u>242,944,616</u>	<u>286,394,734</u>	<u>208,410,249</u>
<i>Total</i>	<u>\$179,040,757</u>	<u>\$231,767,771</u>	<u>\$279,950,122</u>	<u>\$328,082,832</u>	<u>\$254,028,114</u>

Recent Financial Transactions

On March 13, 2003, the City Council authorized the placement of \$72,500,000 "City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-A" and \$50,000,000 "City of San Antonio, Texas Water System Subordinate Lien Revenue and Refunding Bonds, Series 2003-B", which closed on March 27, 2003. Also on March 13, 2003, the City Council approved \$34,000,000 "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2003" with the Texas Water Development Board, with delivery of such bonds expected to occur on or about April 30, 2003.

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San Antonio Water System Summary of Pledged Revenues for Debt Coverage

	December 31		Seven Month Period Ended December 31	Fiscal Year Ended May 31			
	2002 ^{1,2}	2001 ²	2001 ³	2001	2000	1999	1998
Revenues							
Water System	\$ 58,873,352	\$ 79,451,701	\$ 52,803,937	\$ 77,044,280	\$ 82,485,798	\$ 80,975,392	\$ 74,027,065
Water Supply	76,167,052	36,684,084	23,537,496	21,863,709	11,919,369	2,056,493	2,141,286
Wastewater System	89,226,899	87,438,542	51,541,185	91,175,034	96,194,858	92,775,036	92,095,892
Chilled Water and Steam System	11,115,021	12,899,862	6,822,031	9,800,573	5,127,414	4,234,203	4,028,591
Non Operating Revenues ⁴	30,773,197	0	12,249,485	7,341,296	8,468,123	5,494,022	7,649,669
Adjustments for Pledged Revenues	(7,583,370)	0	(3,770,167)	(4,334,051)	(6,749,142)	(3,733,765)	(5,971,694)
Total Revenues	\$ 258,572,151	\$ 216,474,189	\$ 143,183,967	\$ 202,890,841	\$ 197,446,420	\$ 181,801,381	\$ 173,970,809
Less Maintenance and Operating Expenses	137,441,940	134,616,252	78,448,318	121,350,696	115,016,340	100,429,763	93,883,767
Net Available for Debt Service	\$ 121,130,211	\$ 81,857,937	\$ 64,735,649	\$ 81,540,145	\$ 82,430,080	\$ 81,371,618	\$ 80,087,042
Max Annual Debt Service Requirements – Total Debt	\$ 66,267,591	\$ 65,767,934	N/A	\$ 66,994,372	\$ 62,099,234	\$ 49,385,448	\$ 49,385,448
Max Annual Debt Service Requirements – Senior Lien Debt	\$ 61,511,375	\$ 55,236,354	N/A	\$ 56,293,054	\$ 53,566,454	\$ 49,385,448	\$ 49,385,448
Debt Service for Period	N/A	N/A	\$ 38,081,878	N/A	N/A	N/A	N/A
Coverage of Total Debt	1.83 X	1.24 X	N/A	1.22 X	1.33 X	1.65 X	1.62 X
Coverage of Senior Lien Debt	1.97 X	1.48 X	N/A	1.45 X	1.54 X	1.65 X	1.62 X

¹ Unaudited.

² 12 months ending December 31.

³ On April 3, 2001, the Board approved the changing of the fiscal year for the System from a year-end of May 31 to December 31. Report is for the seven months ending December 31.

⁴ Beginning in 2001, capital contributions, including items such as impact fees, were recognized as non-operating income in accordance with GASB 34.

Source: *SAWS*.

The Airport System

General

The City's airport system consists of the San Antonio International Airport (the "International Airport" or the "Airport") and Stinson Municipal Airport ("Stinson") (the International Airport and Stinson, collectively, the "Airport System"), both of which are owned by the City and operated by its Department of Aviation (the "Department").

In March 2002, the Federal Aviation Authority ("FAA") honored one airport in each state in its five-state Southwest Region with the Year 2001 Outstanding Airport Award, recognizing contributions each airport made to enhance aviation in its respective state. The FAA uses this award to honor airport owners and operators for their overall diligence in the planning and implementation of projects, airport maintenance, use of airport improvement program resources, and compliance with safety standards. The International Airport was chosen as the 2001 recipient of this award for the State of Texas.

The International Airport, located on a 2,600-acre site that is adjacent to Loop 410 freeway and U.S. Highway 281, is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, domestic air carriers providing scheduled service to San Antonio are American, America West, Atlantic Southeast, Comair, Continental, Delta, Midwest Express, Northwest, Southwest, and United. Mexicana, Aerolitoral, and Aeromar are Mexican airlines that provide passenger service to Mexico. The City is currently implementing portions of its Airport Master Plan, including designs allowing for an increase from 24 to 60 gates. It is estimated that current gate facilities are being used at 88% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses, including nine rental car companies, which lease facilities at the International Airport and Stinson.

Stinson, located on 300 acres approximately 5.2 miles southeast of the City's downtown business district was established in 1915 and is one of the country's first municipally owned airports. An Airport Master Plan for Stinson was initiated in March 2001 to facilitate the development of Stinson and to expand its role as a general aviation reliever to the International Airport.

Capital Improvement Plan

General. In fiscal year 2002, the City commenced implementation of a ten-year Capital Improvement Plan (the "CIP") pursuant to the Master Plan for the International Airport. The CIP is scheduled to conclude in fiscal year 2011, but the actual time of such conclusion may change as circumstances permit. The CIP addresses both terminal and airfield improvements. The CIP includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement to two runways along with supporting taxiways and aircraft apron. The preliminary cost estimates total approximately \$425.6 million for terminal-related improvements, parking, roadway improvements, and airfield improvements. The anticipated sources of funding for the CIP are as follows:

Funding Sources	Anticipated Funding
Federal Grants	
Entitlements	\$ 42,076,988
General Discretionary	32,559,188
Noise Discretionary	25,455,364
Passenger Facility Charges ("PFCs")	
Pay-As-You-Go	48,854,994
PFCs Secured Bonds	78,962,584
Other Funding	
Airport Funds	80,981,126
Airport Revenue Bonds	<u>116,702,356</u>
Total – All Sources	<u><u>\$425,592,600</u></u>

The CIP includes capital improvements, which are generally described as follows:

Improvement	Amount
International Airport	
Terminal/Gate Expansion	\$ 124,218,231
Airfield Improvements	177,035,099
Cargo Facilities	8,184,000
Roadway Improvements	19,021,927
Parking Improvements	51,785,000
Aircraft Apron	6,721,955
Other (Building Imp., Drainage, Radio System, Etc.)	32,726,388
Stinson Airport	<u>5,900,000</u>
Total	<u>\$425,592,600</u>

Proposed PFC Projects. Public agencies wishing to impose PFCs are required to apply to the FAA for such authority and must meet certain requirements specified in the PFC Act (defined below) and the implementing regulations issued by the FAA.

The City, as the owner and operator of the Airport, has received authority to “impose and use” PFCs at the \$3.00 level on five new projects and to “impose only” PFCs on six additional new projects. The FAA issued a Record of Decision on August 29, 2001 approving the City’s PFC application, and the City began on November 21, 2001 collecting a \$3.00 PFC (less than \$0.08 air carrier collection charge) per paying passenger enplaned. A total of approximately \$102.5 million in PFC revenues will be required to provide funding for these projects at the Airport included in the CIP and are listed below.

The following projects have been approved as “impose and use” projects:

- Construct 30L Holding Apron
- Modify Wash Rack Apron
- Replace RON (remain overnight) Apron
- Implement Terminal Modifications
- Reconstruct Perimeter Road

The following projects have been approved as “impose only” projects:

- Implement Acoustical Treatment Program
- Construct Three High-Speed Taxiways
- Extend Runway 21 and Associated Development
- Construct New Concourse B
- Construct Concourse B Access Road
- Construct Aircraft Rescue and Firefighting Training Facility

Terminal Renovations. A comprehensive terminal renovation project is underway to improve the quality of services provided to passengers at the International Airport. The project, which is estimated to cost \$27.5 million, and is included in the CIP, will include state-of-art terminal building amenities and implementation of recommendations from a recently completed Concession Redevelopment Study. Included in the terminal renovations will be redesigned, high-quality retail and food establishments offering a mix of regional and local products at street prices. Concession space will be expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets will be at airside locations.

Parking Improvements. In 1996, a parking expansion study recommended the development of a new parking garage, reconfiguration of access roadways, and development of a new cashier plaza. Construction began on this project in October 1997 and was completed in October 1999. The Airport System operates and maintains approximately 6,100 public parking spaces and 1,000 employee parking spaces for a total of 7,100 parking spaces. Due to continued growth in airline activity, the expanded parking system is currently running at or near capacity.

A parking study was developed for the Airport in August 2001 by AGA Consulting, Inc, with it concluding that further expansion to the parking system is required. That study indicates that projected peak period demand for Airport parking will exceed the available supply by the end of 2004. Estimates demonstrate that 2,400 additional parking spaces will be required in 2004 to satisfy projected demand over the next ten years. The City is in the process of coordinating the facility layout for the new parking improvements and the additional terminal facilities. The design contract is expected to be awarded in early 2003, while the construction development process for new parking facilities is expected to start before the end of 2003. The associated costs are included in the CIP.

Cargo Improvements. Cargo has been one of the fastest growing activities at the International Airport over the last ten years. The Airport has two designated cargo areas: the West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992. The East Cargo Area is specially designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics recently constructed its own facility. Expansions of the cargo apron were completed in 1997 and 1999 to accommodate future growth, and additional warehouse and office facilities are currently planned. Foreign trade zones exist at both cargo areas.

Airport Operations

General. The City is responsible for the issuance of revenue bonds for the Airport System and preparation of long-term financial feasibility studies for Airport System development. Direct supervision of airport operations is exercised by the Department. The Department is responsible for (i) managing, operating, and developing the International Airport, Stinson, and any other airfields which the City may control in the future; (ii) negotiating leases, agreements, and contracts; (iii) computing and supervising the collection of revenues generated by the Airport System under its management; and (iv) coordinating aviation activities under the FAA.

The International Airport has its own police and fire departments on premises. The firefighters are assigned to duty at the Airport from the City of San Antonio Fire Department, but their salaries are paid by the Department as an operation and maintenance expense of the Airport System.

The FAA has regulatory authority over navigational aid equipment, air traffic control, and operating standards at both the International Airport and Stinson.

Terrorist Attacks' Financial Impact on the Airport. Heightened security requirements as a result of the terrorist attacks of September 11, 2001 on New York City and the Pentagon has had an adverse impact on the Airport's operating budget. For fiscal year ending September 30, 2002, approximately \$1,085,000 was spent on new security measures. A significant portion of this expense, however, represents one-time costs of certain security-related equipment purchases.

For fiscal year ending September 30, 2003, operating expenditures on security measures are estimated at \$840,000, \$400,000 of which is anticipated to come from federal sources. The remaining \$440,000 will be made available from the Airport's Operating Fund. Future annual operating expenditures are expected to remain at the current fiscal year's \$840,000 level. The portion of this expense for which the Airport is responsible is incorporated into airline rates and charges. At this time, future capital costs associated with baggage screening are unknown. A terminal programming study, initiated for the purpose of determining facility requirements and potential costs of an in-line baggage system, is currently underway.

Recent Financings. On May 17, 2001, the City sold \$50,230,000 "City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003" to refund a portion of the "City of San Antonio, Texas Airport System Improvement Bonds, Series 1993" and to effectuate an interest savings equal to \$4,205,029. Such bonds were delivered on April 8, 2003.

On May 1, 2003, the City anticipates delivering two separate series of revenue bonds payable from its collection of gross revenues of the Airport System, to-wit: \$8,175,000 "City of San Antonio, Texas Airport System Revenue Bonds, Series 2003-A" and \$3,255,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-B". The proceeds from the respective issuances of such bonds, sold on March 20, 2003, will be used to

refund certain of the City's other debt obligations payable from its collection of gross revenues of the Airport System.

Comparative Statement of Gross Revenues and Expenses - San Antonio Airport System

The historical financial performance of the Airport System is shown below:

	Fiscal Year Ended September 30				
	1998	1999	2000	2001	2002
Gross Revenues ¹	\$ 37,134,969	\$ 38,128,184	\$ 41,523,081	\$ 42,928,794	\$ 42,377,654
Airline Rental Credit	<u>3,763,781</u>	<u>3,510,267</u>	<u>6,175,754</u>	<u>5,209,037</u>	<u>4,468,199</u>
Adjusted Gross Revenues	\$ 40,898,750	\$ 41,638,451	\$ 47,698,835	\$ 48,137,831	\$ 46,845,853
Expenses	<u>(19,469,337)</u>	<u>(21,449,007)</u>	<u>(21,585,826)</u>	<u>(23,612,635)</u>	<u>(22,296,698)</u>
Net Income	<u>\$ 21,429,413</u>	<u>\$ 20,189,444</u>	<u>\$ 26,113,009</u>	<u>\$ 24,525,196</u>	<u>\$ 24,549,155</u>

¹ As reported in the City of San Antonio's audited financial statements.

Source: City of San Antonio, Department of Finance.

Total Domestic and International Enplaned Passengers - San Antonio International Airport

The total domestic and international enplaned passengers on a calendar basis, along with year to year percentage change:

Calendar Year	Total	Increase/ (Decrease)	Percent Change
1993	2,860,225	--	--
1994	3,064,768	204,543	7.15%
1995	3,058,536	(6,232)	(0.20%)
1996	3,568,328	509,792	16.67%
1997	3,484,141	(84,187)	(2.36%)
1998	3,505,372	21,231	0.61%
1999	3,538,070	32,698	0.93%
2000	3,647,094	109,024	3.08%
2001	3,444,875	(202,219)	(5.54%)
2002	3,349,146	(95,729)	(2.78%)

Source: City of San Antonio, Department of Aviation.

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Total Enplaned/Deplaned International Passengers - San Antonio International Airport

The total enplaned and deplaned for international passengers at the International Airport on a calendar year basis are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent Change
1993	253,321	--	--
1994	238,957	(14,364)	(5.67%)
1995	141,645	(97,312)	(40.72%)
1996	193,843	52,198	36.85%
1997	200,965	7,122	3.67%
1998	246,902	45,937	22.86%
1999	229,397	(17,505)	(7.09%)
2000	243,525	14,128	6.16%
2001	219,352	(24,173)	(9.93%)
2002	201,274	(18,078)	(8.24%)

Source: City of San Antonio, Department of Aviation.

Air Carrier Landed Weight - San Antonio International Airport

The historical aircraft landed weight at the International Airport in 1,000-pound units on a calendar year basis is shown below. Landed weight is utilized in the computation of the Airport's landed fee.

Calendar Year	Total	Increase/ (Decrease)	Percent Change
1993	5,271,426	--	--
1994	5,653,573	382,147	7.25%
1995	5,273,701	(379,872)	(6.72%)
1996	5,555,613	281,912	5.35%
1997	5,530,247	(25,366)	(0.46%)
1998	5,601,616	71,369	1.29%
1999	5,778,407	176,791	3.16%
2000	5,838,185	59,778	1.03%
2001	5,546,561	(291,624)	(5.00%)
2002	5,559,018	12,457	0.22%

Source: City of San Antonio, Department of Aviation.

* * *

APPENDIX B

SELECTED PROVISIONS OF THE ORDINANCE

The following constitutes a summary of certain selected provisions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

SECTION 9: Definitions. For all purposes of this Ordinance (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, certain terms used in Section 22 of this Ordinance have the meanings assigned to them in such Section, and all such terms, include the plural as well as the singular; (ii) all references in this Ordinance to designated “Sections” and other subdivisions are to the designated Sections and other subdivisions of this Ordinance as originally adopted; and (iii) the words “herein”, “hereof”, and “hereunder” and other words of similar import refer to this Ordinance as a whole and not to any particular Section or other subdivision.

A. The term *Act* shall mean Subchapter C of Chapter 402 of the Texas Local Government Code, as amended, or any successor statute thereof.

B. The term *Additional Bonds* shall mean revenue bonds or other evidences of indebtedness issued or entered into, as the case may be, in the future in accordance with the terms and conditions provided in Section 24 hereof and, by their terms, are equally and ratably secured by a lien on and pledge of the Revenues of the System.

C. The term *Average Annual Debt Service Requirements* shall mean an amount which, at the time of computation, is derived by dividing the total amount of Debt Service Requirements to be paid over a period of years as the same is scheduled to become due and payable by the number of years taken into account in determining the total Debt Service Requirements. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

D. The term *Bonds* shall mean the “City of San Antonio, Texas Municipal Drainage Utility System Revenue Bonds, Series 2003” authorized by this Ordinance.

E. The term *Bonds Similarly Secured* shall mean collectively, the Bonds and any Additional Bonds.

F. The term *City* shall mean the incorporated municipality known as the City of San Antonio located primarily in Bexar County, Texas.

G. The term *Credit Agreement* shall mean a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and

approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of any Bond.

H. The term *Credit Facility* shall mean a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations or a letter or line of credit issued by any financial institution whereby the issuer is obligated to provide funds up to and including the maximum amount and under the conditions specified in such agreement or instrument.

I. The term *Credit Provider* shall mean any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Facility.

J. The term *Debt Service Requirements* shall mean as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on or other payments due under such obligation, assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest or other payment obligations calculated by assuming (1) that such non-fixed interest rate for every future 12-month period is equal to the rate of interest reported in the most recently published edition of The Bond Buyer (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by The Bond Buyer (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the most recently reported yield, as of the time of calculation, at which United States Treasury obligations of like maturity have been sold and (2) that, in the case of bonds not subject to fixed scheduled mandatory sinking fund redemptions, that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds, and in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity according to a fixed schedule, the principal amounts thereof will be redeemed prior to stated maturity in accordance with the mandatory redemption provisions applicable thereto (in each case notwithstanding any contingent obligation to redeem bonds more rapidly). For the term of any interest rate hedge agreement entered into in connection with any such obligations, Debt Service Requirements shall be computed by netting the amounts payable to the City under such hedge agreement from the amounts payable by the City under such hedge agreement and such obligations.

K. The term *Depository* shall mean an official depository bank of the City.

L. The term *Fiscal Year* shall mean the twelve month financial accounting period used by the City in connection with the operation of the System which may be any twelve consecutive month period established by the City.

M. The term *Government Securities*, as used herein, shall mean (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America, or (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a

nationally recognized investment rating firm not less than “AAA” or its equivalent; or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent.

N. The term *Insurance Policy* shall mean the municipal bond guaranty insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

O. The term *Insurer* shall mean MBIA Insurance Corporation, or any successor thereto.

P. The term *Interest Payment Date* shall mean the date semiannual interest is payable on the Bonds, being February 1 and August 1 of each year, commencing August 1, 2003, while any of the Bonds remain Outstanding.

Q. The term *Net Revenues* shall mean Revenues of the System, with respect to any period, after deducting the System’s Operating and Maintenance Expenses during such period.

R. The term *Operating and Maintenance Expenses* shall mean all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, including all salaries, labor, materials and administrative costs, allocable under generally accepted accounting principles, to the System. This term shall also include any payments made by the City, or any transfer or allocation of Revenues, to the San Antonio Water System, or any other entity utilized by the City for instream monitoring, sampling, testing and analysis, industrial site inspection, water quality modeling, inspection of illicit connections, legal services and public education relating to the System, to collect the Revenues of the System, or to construct capital improvements to the System for the benefit of the City. Depreciation charges and other costs and disbursements which may be capitalized under generally accepted accounting principles shall not be considered Operating and Maintenance Expenses.

S. The term *Outstanding* when used in this Ordinance with respect to Bonds or Bonds Similarly Secured, as the case may be, means, as of the date of determination, all Bonds Similarly Secured theretofore sold, issued and delivered by the City, except:

(1) Bonds Similarly Secured cancelled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;

(2) Bonds Similarly Secured paid or deemed to be paid in accordance with the provisions of Section 32 hereof; and

(3) Bonds Similarly Secured that have been mutilated, destroyed, lost, or stolen and replacement bonds have been registered and delivered in lieu thereof.

T. The term *Required Reserve* shall mean the total amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 14 hereof.

U. The term *Revenues* shall mean all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding restricted gifts, grants in aid of construction and any amounts received from drainage charges specifically provided by ordinance for contribution to the funding of future drainage system construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds Similarly Secured and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System, and excluding those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code.

V. The term *Stated Maturity* shall mean the annual principal payments of the Bonds payable on February 1 of each year, as set forth in Section 2 of this Ordinance.

W. The term *System or Municipal Drainage Utility System* shall mean all land, easements and interest in land, together with all structures, equipment and facilities used in draining benefitted property (within the meaning of the Act), including, but not limited to, bridges, catch basins, channels, conduits, creeks, culverts, detention ponds, ditches, draws, flumes, pipes, pumps, sloughs, treatment works, and appurtenances to those items, whether natural or artificial, or using force or gravity, that are used to draw off surface water from land, carry the water away, collect, store, or treat the water, or divert the water into natural or artificial watercourses and excluding the property or entities exempted from the Act pursuant to Section 402.053 of the Act; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term System shall not mean to include facilities of any kind which are declared not to be a part of the System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of *Special Facilities Bonds*, which are hereby defined as being special revenue obligations of the City which are not payable from Revenues but which are payable from and equally and ratably secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of the Bonds Similarly Secured including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION 10: Pledge.

A. The City hereby covenants and agrees that the Revenues of the System, with the exception of those in excess of the amounts required for the payment and security of the Bonds Similarly Secured, are hereby irrevocably pledged, to the payment and security of the Debt Service Requirements on the Bonds (including any Credit Agreements) and any Additional Bonds, if issued, including the establishment and maintenance of the special funds created and established by this Ordinance, all as hereinafter provided, and it is hereby ordained that such pledge of the Revenues securing the payment of the Bonds Similarly Secured and interest thereon shall constitute a first lien on such Revenues and be valid and binding in accordance with the terms hereof without any filing or recording thereof (except in the official records of the City) or physical delivery of such Revenues or further act by the City.

B. Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds Similarly Secured and the pledge of Revenues granted by the City under subsection (a) of this Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at anytime while the Bonds Similarly Secured are outstanding and unpaid such that the

pledge of the Revenues granted by the City is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds Similarly Secured the perfection of the security interest in this pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in this pledge to occur.

SECTION 11: Rates and Charges. For the benefit of the Holders of the Bonds Similarly Secured and in accordance with the provisions of the Act and other applicable laws of the State of Texas, the City hereby expressly stipulates and agrees, while any of the Bonds Similarly Secured are Outstanding, to establish, maintain and impose drainage charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Revenues in each Fiscal Year sufficient:

(1) to pay the principal of and interest on the Bonds Similarly Secured (including any Credit Agreement) and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Bonds Similarly Secured, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the Revenues of the System,

(2) to pay for all Operating and Maintenance Expenses,

(3) in an amount equivalent to at least 1.25 times the annual Debt Service Requirements for the Fiscal Year on the Bonds Similarly Secured then Outstanding, and

(4) to pay all other indebtedness payable from and/or secured in whole or in part by a lien on and pledge of the Revenues of the System.

SECTION 12: System Fund. The City hereby covenants and agrees that the Revenues of the System (excluding earnings and income derived from investments held in the Bond Fund and Reserve Fund) shall be deposited as collected to the credit of a fund maintained at the Depository, and known on the books and records of the City as the "Drainage Utility System Fund" (herein called the "*System Fund*"). All revenues deposited in the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

First: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Debt Service Requirements on the Bonds Similarly Secured (including any Credit Agreement) as the same becomes due and payable.

Second: To the payment of all necessary and reasonable Operating and Maintenance Expenses.

Third: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to issuance of Bonds Similarly Secured, including payment of amounts, if any, pursuant to the terms of a Credit Facility as provided in Section 14 hereof.

Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be transferred to the City's general fund or used for any other purpose now or hereafter permitted by law.

SECTION 13: Bond Fund; Excess Bond Proceeds. For the purpose of paying the interest on and to provide a sinking fund for the payment, redemption, and retirement of the Bonds Similarly Secured (including any Credit Agreement), there shall be and is hereby created a special Fund to be designated "City of San Antonio Drainage Utility System Revenue Bond Interest and Sinking Fund" (the "*Bond Fund*"), which Fund shall be kept and maintained at the Depository, and money deposited in such Fund shall be used for no other purpose and shall be maintained as provided in Section 22. The City covenants that there shall be deposited into the Bond Fund prior to each principal and interest payment date from the available Revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the Bonds then falling due and payable, such deposits to pay maturing principal and accrued interest on the Bonds to be made in substantially equal monthly installments on or before the tenth day of each month, beginning on or before the tenth day of the month next following the delivery of the Bonds to the Purchasers. If the Revenues in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the Bonds shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Bond Fund and Reserve Fund is equal to the amount required to fully pay and discharge all outstanding Bonds (principal and interest) or, (ii) the Bonds are no longer Outstanding.

Accrued interest received from the Purchasers shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Bond Fund from the Revenues of the System. Additionally, any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Revenues of the System.

SECTION 14: Reserve Fund. For purposes of accumulating and maintaining a reserve amount for the payment of the Bonds Similarly Secured, the City agrees and covenants to create and maintain a special fund or account on its books and records known as the "City of San Antonio Drainage Utility System Revenue Bond Reserve Fund" (the "*Reserve Fund*"). All moneys deposited to the credit of such Fund shall be held in a fund or account maintained at the Depository. All funds deposited to the credit of the Reserve Fund (excluding investment or deposit earnings and income which may be transferred to the System Fund established in Section 12 hereof during such periods as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Bonds Similarly Secured when (whether at maturity, upon a mandatory redemption date or any interest payment date) other funds available for such purposes are insufficient, and, in addition, may be used to the extent not required to maintain the Required Reserve, to pay, or provide for the payment of, the final principal amount of a series of Bonds Similarly Secured so that such series of Bonds Similarly Secured is no longer deemed to be Outstanding.

Initially, the total amount to be accumulated and maintained in the Reserve Fund by reason of the issuance of the Bonds shall be an amount equal to the Average Annual Debt Service Requirements for the Bonds (calculated on a Fiscal Year basis), and hereinafter referred to as the "Required Reserve". Beginning on or before the 10th day of the month next following the delivery of the Bonds to the initial purchasers on or before the 10th day of each following month until the Required Reserve has been accumulated in said Fund, the City covenants and agrees to cause an amount to be deposited in the Reserve Fund equal to at least 1/60th of the Required Reserve.

When Additional Bonds are delivered or incurred, the Required Reserve shall be increased, if required, to an amount equal to the lesser of (i) the Average Annual Debt Service Requirements (calculated on a Fiscal Year basis) for all Bonds Similarly Secured then Outstanding, as determined on the date each series of Additional Bonds are delivered or incurred and annually following each principal payment date or redemption date for Bonds Similarly Secured, as the case may be, or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of section 148 of the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit in the Reserve Fund of all or any part thereof in cash immediately after the delivery of the then proposed Additional Bonds, or, at the option of the City, by the deposit of monthly installments, made on or before the 10th day of each month following the month of delivery of the then proposed Additional Bonds, of not less than 1/60th of the additional amount to be maintained in said Fund by reason of the issuance of the Additional Bonds then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash).

While cash and investments in the Reserve Fund total not less than the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the initial funding of the Required Reserve or issuance of Additional Bonds as provided in the preceding paragraph), the City covenants and agrees to cure the deficiency in the Required Reserve by making monthly deposits on or before the 10th day of each month to said Fund from the Revenues in amounts equal to not less than 1/60th of the then total Required Reserve to be maintained in said Fund until the total Required Reserve then to be maintained in said Fund has been fully restored. The City further covenants and agrees that, subject only to the payments to be made to the Bond Fund, the Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Additional Bonds.

During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the System Fund.

The City, at its option and consistent with the provisions of this Section, may fund the Reserve Fund at the Required Reserve by purchasing a Credit Facility that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Required Reserve in the event funds on deposit in the Bond Fund are not sufficient to pay the debt service requirements on the Bonds Similarly Secured. All ordinances adopted after the date hereof authorizing the issuance of Additional Bonds shall contain a provision to this effect. The City

reserves the right to use Revenues of the System to fund the payment of periodic premiums on the Credit Facility and any repayment obligation incurred by the City (including interest) to the issuer of the Credit Facility, the payment of which will result in the reinstatement of such Credit Facility, prior to making payments required to be made to the Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund to the Required Reserve for the Bonds Similarly Secured.

In the event a Credit Facility is issued to satisfy all or part of the City's obligation with respect to the Reserve Fund which causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve, the City may transfer such excess amount to any fund or account established for the payment of or security for the Bonds Similarly Secured (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code) or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents Bond proceeds, then such amount must be transferred to the Bond Fund.

Notwithstanding the foregoing provisions of this section, the requirement to maintain the Required Reserve in the Reserve Fund shall be suspended for such time as the Revenues for each Fiscal Year are equal to at least 1.75 times the Average Annual Debt Service Requirements. In the event that the Revenues for any Fiscal Year are less than 1.75 times the Average Annual Debt Service requirements, the City will be required to commence making the Required Reserve deposits as provided in this Section, and to continue such deposits until the Reserve Fund contains the Required Reserve or the Revenues in each of two Fiscal Years have been equal to not less than 1.75 times the Average Annual Debt Service Requirements.

SECTION 15: Deficiencies; Excess Revenues.

A. If on any occasion there shall not be sufficient Revenues of the System to make the required deposits into the Bond Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Revenues of the System, or from any other sources available for such purpose.

B. Subject to making the required deposits to the Bond Fund and the Reserve Fund in accordance with the provisions of this Ordinance, or any ordinance authorizing the issuance of Additional Bonds, the excess Revenues may be transferred to the City's general operating fund or used by the City for any lawful purpose.

SECTION 16: Payment of Bonds. While any of the Bonds are Outstanding, the City's Director of Finance (or other designated financial officer of the City) shall cause to be transferred to the Paying Agent/Registrar, from funds on deposit in the Bond Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly as each installment of interest and principal of the Bonds accrues or matures or comes due by reason of redemption prior to maturity; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the last business day next preceding the date of payment for the Bonds.

SECTION 17: Security for Funds. All money on deposit in the Funds or accounts for which this Ordinance makes provision (except any portion thereof as may be at any time

properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds, and money on deposit in such Funds shall be used only for the purposes permitted by this Ordinance.

SECTION 18: Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in the payments to be made to the Bond Fund or Reserve Fund or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition, or obligation prescribed in this Ordinance.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedies herein provided shall be cumulative of all other existing remedies and the specification of such remedies shall not be deemed to be exclusive.

SECTION 19: Notices to Holders-Waiver. Wherever this Ordinance provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States mail, first-class postage prepaid, to the address of each Holder as it appears in the Security Register at the close of business on the business day next preceding the mailing of such notice.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Bonds or Holders. Where this Ordinance provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 20: Cancellation. All Bonds surrendered for payment, redemption, transfer, exchange, or replacement, if surrendered to the Paying Agent/Registrar, shall be promptly canceled by it and, if surrendered to the City, shall be delivered to the Paying Agent/Registrar and, if not already canceled, shall be promptly canceled by the Paying Agent/Registrar. The City may at any time deliver to the Paying Agent/Registrar for cancellation any Bonds previously certified or registered and delivered which the City may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly canceled by the Paying Agent/Registrar. All canceled Bonds held by the Paying Agent/Registrar shall be destroyed as directed by the City.

SECTION 21: Mutilated -Destroyed -Lost and Stolen Bonds. If (i) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the City and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (ii) there is

delivered to the City and the Paying Agent/Registrar such security or indemnity as may be required to save each of them harmless, then, in the absence of notice to the City or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchaser, the City shall execute and, upon the City's request, the Paying Agent/Registrar shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same Stated Maturity and interest rate and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost, or stolen Bond has become or is about to become due and payable, the City in its discretion may, instead of issuing a new Bond, pay such Bond.

Upon the issuance of any new Bond, or payment in lieu thereof, under this Section, the City may require payment by the Holder of a sum sufficient to cover any tax or other governmental charge imposed in relation thereto and any other expenses and charges (including attorney's fees and the fees and expenses of the Paying Agent/Registrar) connected therewith.

Every new Bond issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Bond shall constitute a replacement of the prior obligation of the City, whether or not the mutilated, destroyed, lost, or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and ratably with all other Outstanding Bonds.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost, or stolen Bonds.

SECTION 22: Covenants to Maintain Tax-Exempt Status.

A. Definitions. When used in this Section, the following terms have the following meanings:

"Code" means the Internal Revenue Code of 1986, as amended by all legislation, if any, effective on or before the Closing Date.

"Computation Date" has the meaning set forth in section 1.148-1(b) of the Regulations.

"Gross Proceeds" means any proceeds as defined in section 1.148-1(b) of the Regulations, and any replacement proceeds as defined in section 1.148-1(c) of the Regulations, of the Bonds.

"Investment" has the meaning set forth in section 1.148-1(b) of the Regulations.

"Nonpurpose Investment" means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and which is not acquired to carry out the governmental purposes of the Bonds.

"Rebate Amount" has the meaning set forth in section 1.148-1(b) of the Regulations.

“Regulations” means any proposed, temporary, or final Income Tax Regulations issued pursuant to Sections 103 and 141 through 150 of the Code, and 103 of the Internal Revenue Code of 1954, which are applicable to the Bonds. Any reference to any specific Regulation shall also mean, as appropriate, any proposed, temporary or final Income Tax Regulation designed to supplement, amend or replace the specific Regulation referenced.

“Yield” of

- (1) any Investment has the meaning set forth in section 1.148-5 of the Regulations; and
- (2) the Bonds means the yield on the Bonds.

B. Not to Cause Interest to Become Taxable. The City shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which if made or omitted, respectively, would cause the interest on any Bond to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the City receives a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the City shall comply with each of the specific covenants in this Section.

C. No Private Use or Private Payments. Except to the extent that it will cause the Bonds to become “private activity bonds” within the meaning of section 141 of the Code and the Regulations and rulings thereunder, the City shall at all times prior to the last Stated Maturity of Bonds:

(1) exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Bonds, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the Bonds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the City or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

D. No Private Loan. Except to the extent that it will not cause the Bonds to become “private activity bonds” within the meaning of section 141 of the Code and the Regulations and rulings thereunder, the City shall not use Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be “loaned” to a person or entity if: (1) property

acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction which is the economic equivalent of a loan.

E. Not to Invest at Higher Yield. Except to the extent that it will cause the Bonds to become “arbitrage bonds” within the meaning of section 148 of the Code and the Regulations and rulings thereunder, the City shall not at any time prior to the final Stated Maturity of the Bonds directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investments acquired with Gross Proceeds (or with money replaced thereby), whether then held or previously disposed of, materially exceeds the Yield of the Bonds.

F. Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Regulations and rulings thereunder, the City shall not take or omit to take any action which would cause the Bonds to be federally guaranteed within the meaning of section 149(b) of the Code and the Regulations and rulings thereunder.

G. Information Report. The City shall timely file the information required by section 149(e) of the Code with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

H. Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Regulations and rulings thereunder:

(1) The City shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last Outstanding Bond is discharged. However, to the extent permitted by law, the City may commingle Gross Proceeds of the Bonds with other money of the City, provided that the City separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than each Computation Date, the City shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Regulations and rulings thereunder. The City shall maintain such calculations with its official transcript of proceedings relating to the issuance of the Bonds until six years after the final Computation Date.

(3) As additional consideration for the purchase of the Bonds by the Purchasers and the loan of the money represented thereby and in order to induce such purchase by measures designed to insure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, the City shall pay to the United States out of the Bond Fund or its general fund, as permitted by applicable Texas statute, regulation or opinion of the Attorney General of the State of Texas, the amount that when added to the future value of previous rebate payments made for the Bonds equals (i) in the case of a Final Computation Date as defined in section 1.148-3(e)(2) of the Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (ii) in the case of any other Computation Date, ninety percent (90%)

of the Rebate Amount on such date. In all cases, the rebate payments shall be made at the times, in the installments, to the place and in the manner as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder.

(4) The City shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3), and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under section 1.148-3(h) of the Regulations.

I. Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the City shall not, at any time prior to the earlier of the Stated Maturity or final payment of the Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection H of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Bonds not been relevant to either party.

J. Elections. The City hereby directs and authorizes the Mayor, Mayor Pro Tem, City Manager, City Clerk, Director of Finance, or City Attorney, either or any combination of them, to make elections permitted or required pursuant to the provisions of the Code or the Regulations, as they deem necessary or appropriate in connection with the Bonds, in the Certificate as to Tax Exemption or similar or other appropriate certificate, form or document.

K. Bonds Not Hedge Bonds.

(1) The City reasonably expects to spend at least 85% of the spendable proceeds of the Bonds within three years after such Bonds are issued.

(2) Not more than 50% of the proceeds of the Bonds will be invested in Nonpurpose Investments having a substantially guaranteed Yield for a period of 4 years or more.

SECTION 23: Investments. Funds held in any Fund or account created, established, or maintained pursuant to this Ordinance, at the option of the City, shall be invested as permitted by the provisions of the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, or any other law, and secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, including investments held in book-entry form, in securities including, but not limited to, direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, Farmers Home Administration, Federal Home Loan Mortgage

Association, or Federal Housing Association; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund or account will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund, within 30 days of the date of passage of each ordinance authorizing the issuance of any Additional Bonds. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14, be credited to and deposited in the System Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds.

SECTION 24: Issuance of Additional Bonds. Subject to the provisions hereinafter appearing as to conditions precedent which must be satisfied, the City reserves the right to issue, from time to time as needed, Additional Bonds for any authorized purpose, including the issuance of refunding bonds. Such Additional Bonds may be issued in such form and manner as now or hereafter authorized by the laws of the State of Texas for the issuance of evidences of indebtedness or other instruments, and should new methods or financing techniques be developed that differ from those now available and in normal use, the City reserves the right to employ the same in its financing arrangements provided only that the following conditions precedent for the authorization and issuance of the same are satisfied, to wit:

(1) The Director of Finance of the City or the City Manager shall have executed a certificate stating (a) that, to the best of his/her knowledge and belief, the City is not then in default as to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Revenues of the System that would materially affect the security or payment of such obligations and (b) either (i) payments into all special Funds maintained for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Revenues of the System have been made and that the amounts on deposit in such special Funds equal or exceed the amounts then required to be on deposit therein or (ii) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency.

(2) The Additional Bonds shall be scheduled to mature or be payable as to principal on February 1 or August 1 (or both) in each year the same are to be outstanding or during the term thereof.

(3) The City has secured a certificate of the City Manager or the Director of Finance of the City to the effect that, according to the books and records of the City, the Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the 18 months, immediately preceding the date of issuance of the Additional Bonds (the date of issuance being the date of initial delivery of all or a portion of the Additional Bonds to the initial purchasers) are at least equal to 1.25 times the Average Annual Debt Service Requirements for all Outstanding Bonds Similarly Secured after giving effect to the issuance of the Additional Bonds then being issued. In making a determination of the Revenues, the Director of Finance or City Manager may take into consideration a change in the charges for services afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Revenues are

determined and, for purposes of satisfying the above Revenues test, make a pro forma determination of the Revenues of the System for the period of time covered by his/her certification based on such change in charges being in effect for the entire period covered by the certificate.

SECTION 25: Refunding Bonds. The City reserves the right to issue refunding bonds to refund all or any part of the Bonds Similarly Secured (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all such Bonds Similarly Secured then outstanding are refunded, the conditions precedent prescribed (for the issuance of Additional Bonds) set forth in subparagraph (3) of Section 24 hereof shall be satisfied and the certificate of the Accountant required in subparagraph (3) shall give effect to the Debt Service Requirements of the proposed refunding bonds (and shall not give effect to the Debt Service Requirements of the Bonds Similarly Secured being refunded following their cancellation or provision being made for their payment).

SECTION 26: Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the System, junior and subordinate in rank and dignity to the lien and pledge securing the payment of the Bonds Similarly Secured, as may be authorized by the laws of the State of Texas.

SECTION 27: Insurance. In regard to the operations and properties of the System, the City also agrees to carry and maintain liability and property damage insurance of the kind and in the amounts customarily carried by municipal corporations in Texas on such kind of properties; provided, however, the City in lieu of and/or in combination with carrying such insurance may self-insure against such perils and risks by establishing self-insurance reserves. Annually each year not later than the end of each Fiscal Year, the City shall prepare or cause to be prepared by a person competent and knowledgeable in such matters a written evaluation of the adequacy of such self-insurance and/or insurance coverage and of any recommended changes in regard to the City's insurance/self-insurance policies, practices and procedures.

SECTION 28: Sale or Lease of Properties. The City, to the extent and in the manner authorized by law, may sell or exchange for consideration representing the fair value thereof, as determined by the City Council of the City, any property of the System which is obsolete, damaged or worn out or otherwise unsuitable. The proceeds of any sale of properties of the System shall be deposited in the System Fund.

SECTION 29: Records and Accounts. The City hereby covenants and agrees that while any Bonds remain Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the receipt and disbursement of Revenues of the System in accordance with generally accepted accounting principles, as well as an inventory or list of System properties. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto and the inventory of System properties. The City further agrees that annually an audit of the books and accounts of the System shall be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountant, shall particularly include the following:

(1) A statement of the receipts and disbursements of the System for such Fiscal Year.

(2) A balance sheet for the System as of the end of such Fiscal Year.

(3) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Additional Bonds and his/her recommendations for any changes or improvements in the operations, records and accounts of the System.

Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, and, upon request, to the initial purchasers of the Bonds and subsequent Holders of 15% or more in principal amount of the Bonds. Such required annual audit of the financial records and accounts of the City shall be completed, insofar as possible, within 120 days following the close of each Fiscal Year and may be a part of the annual audit made of all City records and accounts.

SECTION 30: Special Covenants. The City further covenants and agrees by and through this Ordinance as follows:

(1) It has the lawful power to pledge the Revenues of the System to the payment of the Bonds to the extent provided herein and has lawfully exercised said power under the Constitution and laws of the State of Texas, including the Act, and that the Bonds issued hereunder, together with the Additional Bonds, shall be ratably secured in such manner that no one bond shall have preference over any other bond of said issues.

(2) The Revenues of the System have not been in any manner pledged or encumbered to the payment of any debt or obligation of the City or the System, save and except for the Bonds.

(3) To exercise and pursue with due diligence available remedies provided by law for the collection of delinquent drainage charges, including the power under Section 402.050 of the Act to discontinue all utility services, particularly water and sewer services provided by the City to a user of benefitted property who is delinquent in the payment of drainage charges.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION 31: Special Obligations. The Bonds are special obligations of the City payable from the pledged Revenues and the Holders thereof shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

SECTION 32: Satisfaction of Obligation of City. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in this Ordinance, then the lien on and pledge of the Revenues of the System under this Ordinance and all other obligations of the City to the Holders shall thereupon cease, terminate, and become void and be discharged and satisfied.

Bonds or any principal amount(s) thereof shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in

full such Bonds or the principal amount(s) thereof at maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, and/or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have been certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any money deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The City covenants that no deposit of money or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code.

Any money so deposited with the Paying Agent/Registrar, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such money has been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity, or applicable redemption date of the Bonds, such money was deposited and is held in trust to pay shall upon the request of the City be remitted to the City against a written receipt therefor, subject to the unclaimed property laws of the State of Texas.

Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem defeased Bonds that is made in conjunction with the payment arrangements specified in subsection (i) or (ii) above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the City expressly reserves the right to call the defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased Bonds immediately following the defeasance; (3) directs that notice of the reservation be included in any redemption notices that it authorizes; and (4) at the time of the redemption, satisfies the conditions of (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased Bonds.

SECTION 33: Ordinance a Contract - Amendments - Outstanding Bonds. The City acknowledges that the covenants and obligations of the City herein contained are a material inducement to the purchase of the Bonds. This Ordinance shall constitute a contract with the Holders from time to time, be binding on the City, and shall not be amended or repealed by the City while any Bond remains Outstanding except as permitted in this Section. The City, may, without the consent of or notice to any Holders, from time to time and at any time, amend this Ordinance in any manner not detrimental to the interests of the Holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein and to provide additional security for the payment of the Bonds Similarly Secured. In addition, the City may, with the written consent from the owners holding a majority in aggregate principal amount of the Bonds

Similarly Secured then Outstanding (excluding Bonds Similarly Secured acquired by or held for the account of the City) affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the written consent of all Holders of Bonds then Outstanding, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds or Bonds Similarly Secured, as the case may be, required to be held for consent to any such amendment, addition, or rescission.

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APPENDIX C

**EXCERPTS FROM THE CITY OF SAN ANTONIO, TEXAS AUDITED FINANCIAL
STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2002**

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CITY OF SAN ANTONIO

P.O. BOX 63966
SAN ANTONIO, TEXAS 78283-3966

March 14, 2003

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2002. Through our dedication and commitment to excellence, the City maintained its bond ratings with the nationally recognized rating agencies: Fitch, Inc. at AA+, Standard & Poor's Public Finance Ratings Services, a division of McGraw-Hill Companies, Inc. at AA+, and Moody's Investors Service, Inc. at Aa2. The ratings reflect strong financial management and position with continued tax base growth for the foreseeable future.

This report is prepared and presented by the City's Finance Department. Accordingly, the responsibility for the accuracy, completeness and fairness of the data and presentation, including all disclosures, rests with the management of the City. The public accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA, have audited the financial statements contained herein. As reflected in the independent auditors' report, the City's financial statements are presented fairly in all material respects.

The CAFR is presented in three sections: introductory, financial, and statistical.

- The introductory section contains the transmittal letter, a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, and a list of principal officials.
- The financial section includes the independent auditors' report, management's discussion and analysis (MD&A), the basic financial statements, which consist of government-wide and fund financial statements and notes to the financial statements, other required supplementary information other than MD&A, and other supplementary information.
- The statistical section consists of selected financial and demographic information presented on a multi-year basis.

In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and OMB Circular A-133, and the State of Texas Single Audit Circular. The independent auditors' report on the basic financial statements, management's discussion and analysis (required supplementary information), required disclosures and schedules are included in the financial section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular are in separate documents. As in the past, the City will prepare and submit recommendations on any single audit findings of noncompliance with applicable regulations for corrective action in order to achieve compliance in the future.

As noted above, included in the financial section of the CAFR is Management's Discussion and Analysis (MD&A) which presents a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter complements MD&A and should be read in conjunction with it. The City of San Antonio's MD&A can be found immediately following the report of the independent auditors.

"AN EQUAL OPPORTUNITY EMPLOYER"

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THE REPORTING ENTITY AND CITY SERVICES

Reporting Entity

The City is a home rule city that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two-year terms, limited to two consecutive terms. San Antonio is located in South Central Texas, approximately seventy-five miles south of the state capital of Austin and serves as the county seat for Bexar County. As of September 30, 2002, the City's geographic area was approximately 430.19 square miles. The United States Census Bureau cites the City as the third largest city in the state of Texas and ninth largest city in the country. The estimated population grew from 1,226,250 in fiscal year 2001 to 1,241,100 in fiscal year 2002, an increase of 1.21%.

Pursuant to the reporting standards contained in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Reporting Entity", other related entities are included in the CAFR as blended or discretely presented component units. Blended component units are those entities that are considered as part of the City's operations but are legally separate entities. Those entities are the City of San Antonio Health Facilities Development Corporation, the City of San Antonio Industrial Development Authority, the San Antonio Fire and Police Pension Fund, the San Antonio Fire and Police Retiree Health Care Fund, and the City of San Antonio Texas Municipal Facilities Corporation.

Entities that require discrete presentation are the San Antonio Development Agency (SADA), the City of San Antonio Education Facilities Corporation (SAEFC), the Greater Kelly Development Authority (GKDA), the San Antonio Housing Trust Foundation, Inc. (SAHTF), the San Antonio Local Development Company, Inc. (SALDC), Brooks Development Authority (BDA), the San Antonio Water System (SAWS) and City Public Service (CPS). SAWS and CPS are independently managed, municipally owned utility systems that operate under quasi-independent boards of trustees.

For additional details on each of these entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, Footnote No. 1, entitled "Reporting Entity".

Services

The City provides a vast array of municipal services. These services include but are not limited to fire and police protection, street and sidewalk maintenance, libraries, parks, and solid waste disposal. In addition, the City maintains preventive health services, and facilitates economic and neighborhood development. These services are funded from various sources which include ad valorem taxes, hotel/motel tax, sales taxes, grants, user fees, revenues from municipally owned utilities, and bond proceeds.

City Public Service (CPS) is one of the largest municipally owned utilities in the country. It provides electric and gas services to the greater San Antonio area. CPS operations and debt service requirements for capital improvements are funded by revenue derived from charges to its customers. The City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. In this report, CPS is included as a major discretely presented component unit. CPS is governed by a Board of Trustees which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. Additional information regarding CPS is discussed in the section "Infrastructure Development".

San Antonio Water System (SAWS) provides water, wastewater, chilled water, steam and reuse water services to the San Antonio area. SAWS is a City owned, separate consolidated entity that addresses water related issues in a coordinated and unified manner. Revenues from its customers fund SAWS' operations, capital improvements, and related debt service requirements. Similar to CPS, the City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. SAWS is governed by a Board of Trustees that includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. SAWS is included as a major discretely presented component unit, and it is discussed further in the "Infrastructure Development" section.

THE REPORTING ENTITY AND CITY SERVICES (Continued)

Services (Continued)

The San Antonio Development Agency's (SADA) mission is to focus on housing with emphasis on activities inside Loop 410 while continuing the implementation of the City's Urban Renewal Program. It may designate for urban renewal such areas, as it deems advisable, subject to approval by the City Council and the federal agency that administers the overall program. A majority of SADA's funding is provided from the City as pass-through grants. The board of SADA is composed of seven members appointed by the City Council.

The City of San Antonio Education Facilities Corporation (SAEFC) formerly the San Antonio Higher Education Authority, was established in accordance with State law for the purpose of aiding non-profit institutions of higher education in providing educational and dormitory facilities. This corporation is authorized to issue revenue bonds for the purposes previously mentioned, but said bonds are not obligations of the City. An eleven member Board of Directors appointed by the City Council governs the SAEFC for two-year terms.

The Greater Kelly Development Authority (GKDA) is charged with the task of all issues related to the closure, conversion, redevelopment, and future use of Kelly Air Force Base. The GKDA is also responsible for reviewing all options related to the most appropriate uses of the property on the base and surrounding areas. An eleven member Board of Directors appointed by the City Council governs the GKDA.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) was organized for the purposes of supporting charitable, educational and scientific undertakings, and to provide housing for low and moderate-income families. The SAHTF is also responsible for the administration and operations of the City's Housing Trust Fund, established for the same purpose noted above. An eleven member Board of Directors appointed by the City Council governs the SAHTF.

The San Antonio Local Development Company, Inc. (SALDC) was established in 1978 to help small businesses in South Central Texas realize business growth and job creation by facilitating access to a diverse package of intermediate and long-term loans. The SALDC administers the following loan programs: Small Business Administration (SBA) 504 Loan Program, SBA Microloan Program, Economic Development Administration (EDA) Revolving Loan Fund (RLF), Inner City Loan Program and the Housing and Urban Development (HUD) Enterprise Community Loan Program. The City Council appoints thirty-three Trustees to oversee SALDC, from which eleven members serve as the Board of Directors and govern the activities of the corporation.

Brooks Development Authority (BDA) was designed to improve mission effectiveness, reduce the cost of providing quality installation support, and promote economic development on Brooks Air Force Base and in the surrounding community. Dedicated funds will provide basic municipal services at the base while continuing to develop it as a technology and business park. An eleven member Board of Directors appointed by the City Council governs the BDA for two-year terms.

ECONOMIC OVERVIEW

As a community, San Antonio has positioned itself for long-term growth and prosperity by successfully following a strategy to diversify its economy and improve quality-of-life for all citizens. City government has been an integral part by implementing "A Strategic Plan for Enhanced Economic Development" through the collaborative efforts of San Antonio, Inc., a group of economic development organizations within San Antonio. Furthermore, the City is undertaking on-going infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as providing incentive, assistance and attraction programs that are geared to businesses of all sizes. Both government and citizens are working toward increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in San Antonio. As a result of the North American Free Trade Agreement ("NAFTA"), San Antonio has been able to capitalize on international trade opportunities by becoming a distribution point and center for companies doing business in Mexico. San Antonio is the closest major U.S. city to Mexico's biggest markets, and it enjoys close cultural and business ties to that nation. San Antonio's leading industries include

ECONOMIC OVERVIEW (Continued)

biomedical research and health services, international trade and distribution, information technology and security, telecommunications, tourism, financial services, and the military.

Employment Sectors

The nonagricultural employment sectors distribution for the San Antonio metropolitan area as of September 2002, according to statistics provided by the Texas Workforce Commission is as follows:

Industry Sector	Percentage of Total Employment	Jobs Gained/(Lost) (9/01 to 9/02)	%Increase (9/01 to 9/02)
Services	32.4%	2,500	1.1%
Retail & Wholesale Trade	24.0%	(1,800)	(1.0%)
Government	18.4%	2,800	2.1%
Manufacturing	7.2%	(700)	(1.3%)
Finance, Insurance & Real Estate	7.0%	(1,000)	(1.9%)
Construction	6.0%	1,600	3.7%
Transportation, Communication, & Public Utilities	4.7%	(2,100)	(5.8%)
Mining	0.3%	200	9.1%
Total	100.0%	1,500	.2%

The total number of San Antonio's nonagricultural jobs in September 2002 was 733,000. The City's largest employment sectors are Services, Retail and Wholesale Trade, and Government, which comprise about 75% of the area's employment. The largest growth in raw employment came in the government sector with a gain of 2,800 jobs (or 2.1%), while the largest percentage growth came in the mining industry with a growth rate of 9.1%, although this was from a small base of employment. Of the sectors with a more substantial employment base, construction showed the largest percentage increase in employment with an increase of 3.7%. The largest decline in raw employment came in the transportation, communication, and public utilities industry with a loss of 2,100 jobs, resulting in the largest percentage decline of (5.8%).

The City's health care sector, a component of Services, provides major health care services through its medical, research, education, and development facilities. The City's biomedical industry continues to dominate as the largest industry segment in the San Antonio economy. The Greater San Antonio Chamber of Commerce's Biomedical Economic Impact Study 2001 announced that this industry had a total direct economic impact of \$8.1 billion in 2000. This industry provides 14% of all jobs in the San Antonio area, employing more than 96,000 with an annual payroll of \$3 billion. Between 1990 and 1999, the economic impact of the health care industry nearly doubled (97.2% increase). Additionally, employees in the health care sector earn more than the San Antonio average wage.

San Antonio is unique because our research institutions have a strong array of expertise in basic and applied research talents in instrumentation, pharmacology, diabetes, cancer therapy, transplant medicine, geriatric medicine, dental medicine, specialized medical instruments, and information security technologies. These strengths provide San Antonio with a rich collection of world-class research facilities, affording us the opportunity to capitalize and leverage this significant combination of resources.

Some of the biomedical assets that the City possesses are: the Air Force Center for Environmental Excellence (AFCEE), BioMedical Enterprises, Biomedical Development Corporation, BioNumerik, Brooke Army Medical Center (BAMC), Brooks City-Base, the Cancer Therapy and Research Center (CTRC), Conceptual Mindworks, Inc, DPT Laboratories, ILEX Oncology, Inc., Incell Corporation, KARTA Technologies, Lipitek International, Mission Pharmacol, Probetex, OsteoBiologics, Philips Semiconductor of San Antonio, Research Dynamics, Inc., Sony Semiconductor Company of America, Southwest Foundation for Biomedical Research (SfBR), Southwest Oncology Group, Southwest Research Institute (SwRI), TEKSA Innovations, Texas Blood and Tissue Center,

ECONOMIC OVERVIEW (Continued)

Employment Sectors (Continued)

Texas Research Park Foundation, the University of Texas at San Antonio (UTSA), University Hospital, University of Texas Health Science Center (UTHSC), USAF School of Aerospace Medicine, U.S. Army Institute of Surgical Research, U.S. Army Medical Department Center and School, and USAF Wilford Hall Medical Center.

The University of Texas at San Antonio is adding two new significant assets to this impressive list of biomedical assets. UTSA is constructing a bioprocessing facility at Brooks City-Base that will house labs containing two or three fermenters ranging from about 40 liters to possibly 350 liters, a purification/downstream processing area and a cell culture area, a 2,400 square foot common lab with smaller fermenters for training and research, and an analytical lab.

UTSA will begin construction on a new \$83 million Biotechnology, Science and Engineering building. The facility will consist of 227,000 square feet for lecture halls; research and teaching laboratories; and seminar, conference, and classrooms to accommodate students in the College of Sciences and Engineering. The facility will also be home to the new doctoral degree programs in cell and molecular biology, computational biosciences, and bioengineering. The completion and eventual operation of the facilities will be vital to the continued development of the health and biotechnology industries in San Antonio.

Additionally, San Antonio has three major military hospitals which have positively impacted the City for decades. The United States Air Force's largest medical facility, Wilford Hall Medical Center (WHMC) is an acute care facility, which provides complete medical care to military healthcare beneficiaries in the south central United States, and specialized care to patients from all over the world. WHMC contains the only Eye Bank within the Department of Defense and operates the only military programs for liver transplantation and allogeneic bone marrow transplantation. The Brooke Army Medical Center (BAMC) is an ultra modern, state-of-the-art acute care facility that provides trauma care and graduate medical education, and contains the world-renowned Institute of Surgical Research Burn Center. Both WHMC and BAMC support the surrounding local communities by participating fully in the trauma and emergency medical care of the San Antonio and South Texas civilian communities. The Audie L. Murphy Memorial Veterans Hospital is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, and The Audie L. Murphy Research Services, which is dedicated to medical investigations. It serves forty-one counties and a veteran population of 300,000 throughout South Texas.

Yet another significant industry within San Antonio is the information technology and security industry. According to a recent study of the economic impact on San Antonio, that was commissioned by the Greater San Antonio Chamber of Commerce, this industry employs over 11,000 people with an annual payroll of \$500 million and has an economic impact of \$3.4 billion. With organizations such as the Air Intelligence Agency and the Center for Infrastructure Assurance and Security at the University of Texas at San Antonio, the city has a reputation for excellence in information security.

Past terrorist events resulted in unforeseen national defense strategies. The nation is faced with having to protect its citizens from the direct effects of biological warfare. In addition, a more concentrated effort to mitigate or prevent biological terrorism has been generated in the information security industries. As a result of San Antonio's rich biosciences and information technology industries, the City has positioned itself to surface as the world's foremost Homeland Security Solutions City. A collaborative effort among the numerous organizations within San Antonio with skills and expertise in homeland security will play a pivotal role in making San Antonio a key player in the nation's homeland security efforts and build upon the city's designation as the second-most prepared city in the country behind New York City.

The hospitality industry represents another major component of the Services sector. San Antonio's natural, historic, cultural and recreational attractions have long made it one of the top vacation and convention destinations in the country. This has resulted in an increase in tourism activity, economic impact and employment

ECONOMIC OVERVIEW (Continued)

Employment Sectors (Continued)

opportunities related to the hospitality industry. The City's proactive management practices and marketing efforts resulted in approximately 1,153 reported conventions in fiscal year 2002, with 1,026,938 associated room nights and an estimated economic impact of \$555.1 million. The San Antonio Convention & Visitors Bureau (SACVB) has booked approximately 4.5 million room nights from November 2002 through 2022.

The military continues to represent a principal component of the San Antonio economy. As of September 30, 2002, the military employed approximately 73,189 military, civilian and part-time guard and reserve personnel with an estimated direct economic impact of about \$4.8 billion. Three major active installations comprise the military sector: Lackland Air Force Base, Randolph Air Force Base, and U.S. Fort Sam Houston. In addition, Brooks Air Force Base property was conveyed to the Brooks Development Authority (appointed by City Council) on July 22, 2002, with the resident military missions remaining as tenants in the newly established Brooks City-Base Technology and Business Center.

The military presence within San Antonio will be further enhanced with the relocation of US Army South to Ft. Sam Houston. The relocation of this prestigious organization to the city is expected to take place in 2003 and will bring approximately 500 jobs with an estimated annual payroll exceeding \$42 million and an annual economic impact of \$200 million.

Additionally, San Antonio's stature as a location for corporate headquarters is growing. The City has attracted some major business enterprises to locate their operations in the City. Toyota Motor Manufacturing North America, Inc., has entered into an agreement with the City to invest \$400,000,000 in an automotive manufacturing plant that will produce 150,000 Tundra trucks per year and employ 1,800 employees. Construction is scheduled to commence in 2003 with production occurring in 2006. Infineon, which is a call center that provides directory assistance services announced that it will expand its operation in San Antonio by employing an additional 2,000 workers. The company plans to complete this expansion by December 2003. The City has also entered into an agreement with a large developer to develop a major area in the City to include a PGA Resort with two golf courses, the construction of a major hotel, and construction of residential homes. The development area is in the Northeast part of the City, outside the City limits but within the Extrajurisdictional Area and covers approximately 2,597.6 acres of land.

United Services Automobile Association (USAA), a leading insurance agency, continues to be the City's largest private sector employer. Clear Channel Communications, Inc., also headquartered in San Antonio, is a global leader in the out-of-home advertising industry with radio and television stations, and other entertainment venues in forty countries around the world. New headquarters have also been built for San Antonio's energy company, the Valero Energy Corporation, which merged recently with Ultramar Diamond Shamrock. Clarke American Checks, the third largest producer of checks and financial forms in the country with headquarters in San Antonio, expanded its local presence in 1999 with the addition of a major customer service center.

San Antonio is being recognized as a center for national and international business service operations. This is evidenced by companies such as J.P. Morgan, Chase, Citicorp, World Savings & Loan, Boeing, QVC, Kraft, and other companies which have established substantial business operations in San Antonio that provide billing services, technical and communications services, financial services, customer service and other functions to their entire organizations.

Business Climate and Outlook

In response to the terrorism events of September 11, 2001, the Mayor appointed a Blue Ribbon Commission on San Antonio's Economy. The commission was comprised of seven task forces that evaluated the local economy and made recommendations to counter the economic slowdown resulting from the terrorism.

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

San Antonio's healthy economy and positive business climate are enhanced by elements key to continued economic growth, such as an advanced telecommunications system, significant recent accomplishments in the area of higher education, and strong workforce development programs. Also enhancing San Antonio's business appeal is the high quality-of-life the City offers and a cost-of-living that is well below the national average. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including championship golf courses, theme parks, historical attractions, museums, professional sporting attractions and a lively performing arts environment.

The City's Economic Development Department (EDD), in coordination with the private, non-profit San Antonio Economic Development Foundation, continues to attract major corporations to the area and help local businesses expand. Although the nation's economy experienced a downturn in 2002, job growth continued in San Antonio with approximately 2,017 new jobs created through economic development programs. Companies that located or expanded business operations in San Antonio in 2002 include J.P. Morgan, Chase, Boeing, United Health, San Antonio Aerospace, Inc., and World Savings. Another 100 automotive manufacturing jobs are already confirmed for 2003 with the recent announcement by Royal Oak Industries to establish manufacturing operations in San Antonio.

The Industry Development Division of the City's EDD continues to focus on working with the Greater Kelly Development Authority in the successful redevelopment of KellyUSA, formerly Kelly Air Force Base, which officially closed on July 13, 2001. EDD is also working with the Brooks Development Authority to make Brooks City-Base an economic success. In addition, EDD is working with Fort Sam Houston to explore ways that the City can help this local installation become more cost efficient, reduce infrastructure support costs, preserve jobs and enhance economic development opportunities.

KellyUSA

At KellyUSA, the Greater Kelly Development Authority (GKDA) continues implementation of the community's 1995 Initial Base Adjustment Strategy Committee strategic plan. To date, GKDA has successfully created over 5,300 new commercial jobs and leased out 75% of the available and marketable space with sixty-tenant leases executed. Commercial tenants include major aerospace industry players such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Electric, General Dynamics, and Pratt & Whitney. Boeing employs over 2,000 personnel as they continue to expand and grow their operations at KellyUSA. Over the past two years, GKDA has also completed over \$105 million in new construction and facility upgrades and has planned a \$108.6 million capital improvement program for the next five years. As part of these improvements, in April of 2002 KellyUSA opened the Advanced Technology Center which provides a curriculum in avionics.

With the completion of the City's Air Cargo Study in July 2002, planning is also underway to establish air cargo operations at KellyUSA. In addition, GKDA is partnering with the City, the Port of Corpus Christi, the Texas Department of Transportation and major railroad companies to establish inter-modal operations at KellyUSA with critical linkage to the planned Kelly Parkway. The success of this initiative is key to creating Inland Port San Antonio and establishing San Antonio as a major center of logistics and distribution for NAFTA trade.

Brooks City-Base

Congress, by passing special legislation in October 1999 which was then amended in September 2001, granted the Air Force special authority to improve mission effectiveness and reduce the cost of providing quality installation support at Brooks Air Force Base (AFB). This special authority allowed Brooks AFB to transfer and lease back federal land in a more streamlined manner without being subjected to some existing federal property statutes and presents an opportunity for high quality, multiple-use development in a unique public-private partnership with the Air Force. Development of underutilized real property, including sale or lease of Air Force assets, is part of an integrated strategy for transforming the base into a technology and business center.

ECONOMIC OVERVIEW (Continued)

Business Climate and Outlook (Continued)

Brooks City-Base (Continued)

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the "Air Force") and the City designed to retain the Air Force missions and jobs at Brooks AFB, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks AFB and in the surrounding community. Both the City and the Air Force are partnering to utilize City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park (the "Park"), a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology.

The Park was officially established on July 22, 2002, which resulted in the transfer of 1,310 acres of land and improvements conveyed by Brooks AFB to the Brooks Development Authority ("BDA"). The Air Force is the Park's anchor tenant and is leasing back additional facilities, as necessary, to perform its missions. The City is now providing municipal services to include fire and police services. Electric, gas and water utilities have been transferred by the BDA to City Public Service (CPS) and the San Antonio Water System (SAWS), City-owned utilities. The BDA has also contracted with Grubb & Ellis, a national real estate developer and property management firm to manage Park facilities and to facilitate the park in the attraction of new tenants and jobs.

Fort Sam Houston

In April 2000, the U.S. Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center and two other buildings at Fort Sam Houston. The three buildings total about 500,000 square feet in space and are located in a designated historic district, had been vacant for some time and in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease the property to commercial tenants. FSHRP is currently seeking tenant sublease commitments necessary to secure financing for an estimated \$50 million in renovations to the buildings. On September 17, 2002, the U.S. Army announced that U.S. Army South (USARSO) will relocate from Puerto Rico to Fort Sam Houston in 2003. The relocation will bring up to 500 new jobs to San Antonio with an annual economic impact of approximately \$20,000,000. The Army intends to lease facilities from the FSHRP clearing the way for renovation to begin on these historic facilities. The continued success of this unique public-private partnership at Fort Sam Houston is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities and generating net cash flow for both the Army and FSHRP. This initiative supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army also intends to extend this initiative to include other properties at Fort Sam Houston currently available for redevelopment.

San Antonio Technology Accelerator Initiative (SATAI)

SATAI is a collaborative effort that identified opportunities for economic development for San Antonio's technology industries. Four technology cluster groups (Biosciences, Information Technology, Telecommunication, and Aerospace) were identified as San Antonio's competencies. Today SATAI has 1,100 members and is instrumental in developing and implementing initiatives that accelerate entrepreneurial job creation and increase community income through the growth of the technology sector of the San Antonio economy. SATAI promotes San Antonio technology through its new web site, airport advertisements, speaker's bureau publications, press opportunities, a regional technology calendar and, by working with the Convention and Visitors' Bureau to attract technology conventions to San Antonio.

San Antonio, Inc.

San Antonio, Inc. was established by City Council ordinance on May 24, 2001 for the purpose of providing a higher level of coordination and collaboration on economic development initiatives. Executive and volunteer leaders from more than sixty local economic development organizations serve in the organization's Directors/Resource Tier, Executive Board, and the Board of Governors. Member organizations include local

San Antonio, Inc. (Continued)
chambers of commerce, business and technology parks, small business advocates, regional and international trade organizations, university systems and local colleges, public schools, the City of San Antonio, Bexar County, and the Alamo Area Council of Governments. San Antonio, Inc. is responsible for implementation and regular updates of the 2001 Strategic Plan for Enhanced Economic Development, a comprehensive economic development strategic plan designed to leverage certain targeted driver industries, maximize San Antonio's location advantages in South Texas, facilitate the business development process, ensure small business opportunities in the new economy, and promote revitalization in targeted areas of our community. During fiscal year 2002, San Antonio, Inc. convened the initial meetings of its Executive Board, hired a full-time staff coordinator through the City's economic development department, developed a comprehensive tracking system for 44 current strategies in the strategic plan and initiated a process for annual updates and revisions of the strategic plan, which culminated in the first San Antonio Inc. Annual Meeting & Economic Roundtable on February 25, 2003.

Aviation Industry Development
The Aerospace Industry continues to be a growing segment of the San Antonio economy with the presence of major industry players such as Boeing, Lockheed Martin, Pratt & Whitney, Cessna, General Electric, Sino Swearingen, Raytheon, Standard Arrow and Chromalloy. A recently completed study, funded through the Greater San Antonio Chamber of Commerce Aerospace Committee, determined that the overall annual economic impact of the Aerospace Industry in San Antonio is over \$2.5 billion. In addition, the industry employs about 10,000 people who earn an average annual wage of \$38,593. The City expects this industry to continue growing particularly in the areas of maintenance, repair and overhaul and in air cargo.

The City has three airport facilities: San Antonio International Airport, Stinson Municipal Airport and KellyUSA. The International Airport and Stinson Airport are owned by the City and operated by the City's Aviation Department. At KellyUSA, the GKDA has entered into a joint use agreement for use of the KellyUSA runway for commercial air operations. The airport facilities provide San Antonio with a variety of properties, facilities and assets that comprise the nucleus for a viable and expanding aerospace industry. The City has, therefore, identified aerospace as a targeted driver industry in its 2001 Strategic Plan for Enhanced Economic Development.

To support the workforce requirements for growing and sustaining a viable aerospace industry, the community partnered to establish the Alamo Area Aerospace Academy (AAAA), which opened in August 2001. The City has funded the AAAA with \$200,000 in fiscal year 2002 and another \$150,000 in fiscal year 2003. The inaugural class enrolled 121 high school students of which 94 graduated in May 2002. Of the 25 seniors in this class, 15 are now employed within the aerospace industry in San Antonio. There are currently 127 students in the fiscal year 2003 AAAA class. Complementing this workforce initiative is the Advanced Technology Center that opened at KellyUSA in April 2002 and provides an avionics curriculum. The City in partnership with the Alamo Community College District funded the \$3 million facility renovation project housing the Academy.

The City is also in the process of implementing the November 2000 Aviation Strategic Plan. The Plan identifies economic development opportunities at KellyUSA, San Antonio International Airport and Stinson Municipal Airport, specifically in the four business areas of: (1) air cargo; (2) aircraft maintenance, repair and overhaul (MRO); (3) general aviation; and (4) air passenger service. The Aviation Department completed an Air Service Development Program in October 2001 that identifies opportunities for enhancing air passenger service at San Antonio International. In addition, an Air Cargo Study was completed in July 2002 and has identified opportunities for air cargo growth both at KellyUSA and San Antonio International Airport. Aviation is also one of the four industry cluster groups identified in the San Antonio Technology Accelerator Initiative (SATAI).

New Business Prospects
As of the third quarter of 2002, the San Antonio Economic Development Foundation, Inc., reported the City had 84 active business prospects. The new businesses are categorized as business services, financial services, fabricated metal products, industrial machinery, electrical equipment, rubber and plastics, nondurable distribution, durable distribution, engineering and professional services, printing and publishing, custom software, engineering and research, transportation equipment, miscellaneous manufacturing, chemical and pharmaceutical and others.

Downtown Development Projects
The centerpiece of downtown revitalization is the Houston Street Redevelopment Project. This effort was spearheaded by Street Retail San Antonio, L.P., which acquired 14 buildings on E. Houston Street between the San Antonio River Walk and Presa Street. The developer invested more than \$100 million to create a retail and entertainment district in the heart of downtown. Public improvements included, among other things, river walk, street, sidewalk, landscaping and pedestrian way improvements. Private improvements included renovations to eight buildings located on Houston Street as well as building the new 214-room Hotel Valencia. The planned private developments include specialty retail outlets, restaurants, office space, housing units, clubs and other venues. In addition to the aforementioned improvements, the City recently completed a 704 space multi-level parking garage in the area of Travis and St. Mary's streets, which has alleviated day time corporate parking demand and increased parking for the hotels, restaurants, and night attractions. In addition in 2003, the build-out of the new 100-room Watermark Hotel and the 350-room La Quinta Inn & Suites hotel projects will reshape the downtown skyline. The City will continue its efforts to facilitate the development of a convention headquarters hotel adjacent to the recently enlarged Henry B. Gonzales Convention Center.

International Trade
The Directory of San Antonio Exporters and Support Organizations (published by the City's International Affairs Department) has identified over 700 local companies that export to other nations or provide export assistance.

During fiscal year 2002, the International Affairs Department worked with 122 international delegations that included 2,165 delegates that visited the City. Delegations visited San Antonio from Germany, Israel, Mexico, Japan, Canada, Argentina, Thailand, Qatar, Luxembourg, Spain, Canary Islands, Ireland, China, France, Russia, Czech Republic, Great Britain, Italy, South Africa, and Costa Rica. The value of exports has increased from \$563.9 million in 1993 to \$2,033.7 million in 1999, the most recent year for which such information is available.

As of September 30, 2002, the North American Development Bank (NADB) had authorized loans and grants totaling approximately \$458.7 million for the development and financing of 52 infrastructure projects throughout the 10 states that comprise the U.S.-Mexico border region. These projects represent a total investment of approximately \$1.3 billion, and are benefiting an estimated 6 million border residents in the United States and Mexico.

The NADB has been the catalyst to a significant and unprecedented level of investment in environmental infrastructure along the U.S.-Mexico border. NADB participation in these projects represents about 34 percent of the total investment in these projects. Of these, 12 have been completed, 24 are currently under construction or in various stages of completion, and 16 are in the design or bidding stage and are expected to start construction this year. In the area of local capacity building, the NADB to date has authorized technical assistance under its Institutional Development Program (IDP) for 106 projects in 68 communities on both sides of the border.

Infrastructure Development
The City recognizes its obligation to address infrastructure needs and to provide the services required to maintain and continuously improve the living standards of its citizens. Infrastructure, the basic framework or underlying foundation provided by government to support a community's basic needs, including its various components that ensure economic activity, safety, education, and quality of life, are discussed below.

Infrastructure Development (Continued)

Basic Infrastructure Components

Street/Highway System

San Antonio is located at the crossroads of two important Freeways – IH-10 (running east-west) and IH-35 (running north-south) – and is located mid-way between the East and West coasts. San Antonio’s roadway system, consisting of approximately 4,242 roadway miles, facilitates the movement of commerce within and through the City. Freeway arteries that intersect the downtown business district include IH-10, IH-35, IH-37, US-90, and US-281. There are three freeway loops including a downtown loop, IH 410, and Loop 1604. Recently completed or ongoing improvements include the widening of segments of Loop 1604, the construction of new interchanges on US-281, IH 410 and IH-10, and a new transportation corridor, the Wurzbach Parkway. Additionally, the Texas Department of Transportation is currently planning the construction of a four-level IH 410/US-281 interchange. In addition the City has implemented the first reversible lane project to mitigate traffic congestion around the SBC Center, which is a mid-size, multi-purpose arena for the San Antonio Spurs Basketball Team, during events. The Texas Department of Transportation’s TransGuide or “smart highway” project has been operational in San Antonio since 1995, with ongoing additional expansions and equipment updates. This traffic management system utilizes high-speed computer technology to inform drivers about traffic conditions ahead, thereby enhancing safety, reducing congestion, and providing for more efficient traffic flow. In addition, TransGuide technology incorporated the Amber Alert System, a system used to alert citizens about missing children.

Public Safety

The improved Dispatch Facility, constructed in 2000 and funded with 1998 Certificates of Obligation, will accommodate the requirements for a new public radio system. Currently in the final stage of field testing, it is scheduled to become operational in the first quarter of 2003.

The Police Department continues implementation of the Police Rolling Staffing Plan. The Plan outlines goals to add new police officer positions and civilian positions while redirecting other police officer positions to patrol functions. The cost of implementation over fiscal years 2002-2006 is \$45 million. The 2001 Plan was implemented in order to stay proactive with potential rising property and violent crime rates along with projections of an unusual number of police officer retirements, which would leave potential gaps in police staffing. This potential increase in crime is due to recidivism, as a result of early prison releases. With the continuation of the 2001 Plan, the new Patrol Availability Factor goal for fiscal year 2003 will be 39.56% along with the continuation of dedicated directed patrols.

The 1999 Bond Program earmarked \$17.4 million for three Vision 2001 technology systems: Field Entry Reporting, Optical Disk Storage and Retrieval, and Supplementary Report Management System. This “Public Safety Integrated Technology System” will provide a comprehensive information management system to police officer and detective effectiveness while enhancing customer service. The system will enable officers to enter reports from the field, as well as improve the filing, preparation and storage of important case information. The Police Department currently has a contract with Open Systems Group for the development of a software base for this system. In fiscal year 2002, \$4,074,250 was budgeted for this project.

1999 General Obligation Bonds totaling \$3,009,000 were allocated to Police Substation Expansion Projects for West, South, North, and Northwest Substations. In fiscal year 2002, \$2,935,000 was budgeted for the expansion projects. The Police Substation Expansion Projects continue as scheduled; expansion of five police substations is necessary due to annexation, population growth, and crime trends in order to improve the ability to provide neighborhood policing and improved service delivery. Construction of the North, South and West Substations will be complete in January 2003. The East and Northwest Substations will be complete in December 2003.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Safety (Continued)

In fiscal year 2002, the Police Department continued to provide and improve citizens’ convenient access to information and investigative services at Police Substations through enhanced data availability on the Department’s Website. Police reports are available to the public at the Police Headquarters Records Office and at the four City of San Antonio Community Link Centers.

The City continues to promote and provide for its Public Safety infrastructure by allocating funding through the budget process for police, fire and Emergency Medical Service (EMS). As of September 30, 2002, Public Safety Infrastructure included 6 police stations, 48 fire stations, which house 48 engine companies, 18 truck companies, 8 brush trucks, 8 Fire command units, 5 EMS command units, 25 full-time EMS units and up to 7 peak period units per day, increasing to 10 units during large citywide special events such as Fiesta and the New Year’s Eve celebration.

With regard to Fire and EMS services, fiscal year 2002 included the continued implementation of the Fire Department Master Plan, a five-year rolling plan of comprehensive improvements targeted to enhance services provided such as fire suppression, fire prevention, and emergency medical services. Improvements implemented included continuation of the department’s apparatus replacement program. Additionally, the First Responder program was continued with the addition of 1 van, bringing the total to 16. This program is part of a Fire Department initiative to increase the useful life of the more expensive firefighting apparatus. Technology and equipment enhancement upgrades related to Laptop Mobile Data Terminals (LMDTs) were continued in fiscal year 2002.

Parks and Recreation Department

As of September 30, 2002, the City’s Parks and Recreation infrastructure included over 187 neighborhood, community and large urban parks, numerous sports complexes, 26 recreation centers, 23 swimming pools, and other special facilities, such as the River Walk, Botanical Gardens, Tower of the Americas, Spanish Governor’s Palace, Market Square and La Villita. The total park area covers 13,867 acres. During fiscal year 2002, approximately 25 Parks and Recreation capital improvement projects were completed at a construction cost of over \$6.2 million, and an additional 84 Parks and Recreation capital improvement projects were under construction, bidding, or design at the end of the fiscal year.

On May 6, 2000, San Antonio voters approved the collection of an additional 1/8 cent sales and use tax aggregating up to \$65 million to purchase and develop as appropriate; (a) large tracts of parkland containing sensitive natural areas over the Edwards Aquifer (\$5 million), and (b) linear tracts of land for greenway development along Leon Creek and Salado Creek (\$20 million), as well as a 10% operations and maintenance endowment for the Edwards Aquifer Parkland. The parks proposal was the only one of four ballot issues presented to voters on May 6, 2000 that was approved, and will be funded through a temporary 1/8 cent increase in San Antonio’s sales and use tax. It is anticipated that the \$65 million will be remitted to the City by July 2004.

Planning Department

The City’s Citizens Blue Ribbon Redistricting Committee met over the course of several months in fiscal year 2002 to implement a Re-Districting Plan based on the results of the 2000 Census. Numerous Geographic Information System (GIS) and Demographic products were completed for this committee, including staff analysis on population, race, and historic trends. These products supported the submittal of the proposed Re-Districting Plan to the Department of Justice (DOJ). After approval by the DOJ, the GIS Staff created a City-wide GIS Enterprise Data Set of the 2002 City Council Districts. This data is to be used by the City Clerk’s Office to prepare for registration of City Council Candidates under the 2002 redistricting. After the election, this data will be used for all City information and business processes which service the citizens of San Antonio. During fiscal year 2002, the Southside Balanced Growth Initiative was initiated. The primary goal of this initiative is to

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)

reverse the trend of disinvestments in the southern sector and encourage the balanced growth of the City. Currently outside the City limits, an 83.6 square mile area located 7.5 miles south of downtown will be annexed for limited purposes to extend land use and health safety regulations to the area. This initiative will establish a growth policy for south San Antonio that seeks to develop the area into an integral part of the City and create an overall scenario of sustainable development.

Additionally, this effort seeks to achieve the goals and objectives of the 1997 Master Plan, the 2001 San Antonio Housing Master Plan, and the Community Revitalization Action Group (2000) by utilizing Smart Growth Principles. Through this initiative, the City will encourage the development of attractive, sustainable neighborhoods that are pedestrian oriented and support a mix of uses, provide a range of quality housing options, protect natural resources and open space, support walking, cycling, and bus/rail transit alternatives to driving, revitalize and support existing communities, generate job opportunities, promote quality schools, attract investors and encourage development by making investment easier and profitable, and reduce infrastructure costs by developing closer to the urban area and coordinating development infrastructure. The City added three new Historic Districts, bringing the total of Historic Districts in San Antonio to nineteen. A recent study of the Economic Impact of Historic Designation in San Antonio by Rutgers University showed that Historic District designation increased property values 18% over the normal inflation rate compared neighborhoods of similar character not designated historic. Currently three additional neighborhoods are in various stages of designation. Two of those should be through the designation process by the end of the year.

During the past year the City expanded its Riverwalk areas and created six new River Overlay Districts. The new districts extend along the San Antonio River from the headwaters to the southernmost of San Antonio's Spanish Missions. The overlays regulate development and use of properties using criteria specific to the historical and design setting of each district and will also enhance the City's ability to protect the unique character of the San Antonio River as well as the neighborhoods and businesses near the river.

The Historic Preservation office is also working on an architectural survey of the original thirty-six square mile city limits. The survey, utilizing volunteers from neighborhoods and advocacy groups, is a three-year project to document and identify potential landmarks and historic districts.

The Neighborhood Improvement Challenge Program (NICP) provides neighborhood-based organizations the opportunity to implement small, public improvement projects in partnership with private groups. In fiscal year 2002, the NICP awarded a total of \$161,696 to 107 projects ranging from landscaping, murals, park enhancements, and special topics series that include newsletter design, advertising, and promotion and distribution. Although the NICP was not funded for fiscal year 2003, previous funding will enable the scheduling of additional special topics workshops series to be held in the spring of 2003.

As part of the implementation of the Community Building and Neighborhood Planning Program (CBNP), three neighborhood plan projects were initiated. These include the Hays Street Bridge Rehabilitation Project, the Austin Highway Hazard Elimination Safety Program (HESP) and the Olmos Creek Greenway Project. The Hays Street Bridge Project was awarded \$2,879,293 through the Texas Equity Act for the 21st Century (TEA 21) enhancement program in 2002. In an effort to raise funds for the City's match, the Planning Department will continue its involvement to coordinate with the citizens committee and to assist with public involvement with Texas Department of Transportation (TxDOT).

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)

Through a Hazard Elimination Safety application submission for TEA 21 funds, \$475,000 was awarded to the San Antonio TxDOT district for the construction of medians on Austin Highway from Eisenhower to Rittiman. The Planning Department, Neighborhood Action Department and the Public Works Department are coordinating the preliminary design and public involvement process with TxDOT.

In April 2002, the City Council adopted a Universal Housing Design Ordinance requiring all single-family houses, triplexes, and duplexes built with City financial assistance to be designed and constructed to accommodate the life span of the owners regardless of disability.

As part of the City's commitment to comply with the 1990 American's with Disabilities Act, 211 facilities have been modified for accessibility and 73 are currently under design. The long-range Building Access Modification Plan (BAMP) projects that an additional 27 facilities will be modified by January of 2005.

Library Facilities

The San Antonio Public Library System consists of a Central Library facility, 18 branches, 1 joint-use facility at the Ronald Reagan High School (a unique partnership between the City and Northeast Independent School District), and 1 bookmobile. The Central Library and 9 of the 18 library branches offer services seven days and three evenings a week. The Ronald Reagan High School/Public Library is open after school hours and evenings four days a week, Saturday and Sunday during the day. The remaining 9 library branches are open 6 days and 4 evenings a week. The addition of Thursday evening hours at these locations provided increased library access and usage for families, students and neighborhood residents.

Over 3.4 million people utilized the Library's collection of print and non-print resources in fiscal year 2002. Citizens borrowed 6% more materials and asked 29% more reference questions than in the prior year. Usage of the Library's website, including access to full-text electronic information databases increased 64% over the previous year. Over 152,000 citizens attended library programs designed for a variety of audiences including children, families and adults.

Airport System

The City's airport system consists of the San Antonio International Airport and the Stinson Municipal Airports, both of which are owned by the City and operated by its Department of Aviation.

San Antonio International Airport is located on approximately 2,600 acres of land that is adjacent to Loop 410 Freeway and U.S. Highway 281, and is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and is able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 28 second level gates. Presently, domestic air carriers providing service to San Antonio are American, America West, Atlantic Southeast, Comair, Continental, Delta, Midwest Express, Northwest, Southwest, and United. Mexicana, Aerotlitoral and Aeromar are Mexican airlines that provide passenger service to Mexico. The Airport Master Plan design allows for an increase from 28 to 60 gates. It is estimated that current gate facilities are being used at 88% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses including nine rental car companies, which lease facilities at the San Antonio International Airport and Stinson Municipal Airport.

San Antonio International Airport has two designated cargo areas: the West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992. The East Cargo Area is specially designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics (EGL) constructed

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
a processing facility in the year 2000. Expansions of the cargo apron were completed in 1997 and 1999 to accommodate future growth and additional facilities are currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2001 totaled 108,815 tons.

San Antonio International Airport operates and maintains approximately 6,100 parking spaces and 1,000 employee parking spaces for a total of 7,100 parking spaces. A parking study was developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicated that projected peak period demand for airport parking will exceed the available supply by the end of 2004. It is estimated that 2,400 additional parking spaces will be required to satisfy projected demand over the next ten years. The City is in the process of coordinating the facility layout for the new parking improvements and the additional terminal facilities. The design contract for the parking improvements is expected to be awarded in early 2003, while construction of the new parking facilities is anticipated to start before the end of 2003.

In 1999, the Aviation Department completed a Re-engineering Study of its Airports' operations. The study focused on cost efficiency and customer service improvements as well as revenue enhancements. The goal is to achieve a "balance" approach that would weigh costs against level of services that the Department provides to the public. In addition, the Re-engineering Study included recommendations on performance targets to be achieved over a three-year period, as well as an on-going evaluation process to monitor the status of the changes. In addition to the 12 full-time and 30 part-time positions, which were eliminated following the completion of the recent parking improvements, the recommendations involved a net reduction of 26 positions.

It is estimated that by the end of fiscal year 2002, the Re-engineering recommendations will result in an annual operating cost savings of \$1.2 million and additional operating revenues of \$1.9 million. The combination of the two will produce an annual increase of approximately \$3.1 million to the Airport Operating Fund. Contractually, approximately half of this sum will be utilized in reducing the cost of facilities and services to the airlines, while the remaining funds will be available for new capital facility improvements at International and Stinson Airports. In fiscal year 2002, airline costs per enplaned passenger were estimated to be \$4.09.

As an adjunct to the Re-engineering improvements, a comprehensive terminal renovation project is underway to improve the quality of services provided to passengers at the San Antonio International Airport. The project, which is estimated to cost \$27.5 million, will include state-of-art terminal building amenities and implementation of recommendations from a recently completed Concession Redevelopment Study. Included in the terminal renovations will be redesigned, high-quality retail and food establishments offering a mix of regional and local products at street prices. Concession space will be expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets will be at airside locations.

The City is planning the implementation of a ten year Capital Improvement Program (CIP) pursuant to the Master Plan for San Antonio International Airport. The CIP addresses both terminal and airfield improvements. The capital program includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements and the extension and improvement to two runways, along with supporting taxiways and aircraft apron. The Airport System's overall CIP for fiscal years 2002 through 2011, which may change as circumstances permit, is estimated to be \$425.6 million. The CIP includes capital improvements as follows: \$124.2 million for terminal related improvements, \$51.8 million for parking improvements, \$19 million for roadway improvements, \$177.1 million for airfield improvements, \$8.2 million for cargo facilities, \$6.7 million for aircraft apron, \$5.9 million for Stinson Airport improvements, and \$32.7 million for other improvements. The City plans to pursue a phased approach in the construction of the improvements, whereby capacity is increased to coincide with demand. The City also

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)
desires to limit to the extent possible the impact on airline rates and charges. The City, as the owner and operator of the Airport, has received authority to "impose and use" Passenger Facility Charges (PFC) at the \$3.00 level, which became effective November 1, 2001. The FAA issued a Record of Decision approving the City's PFC application on August 29, 2001. The CIP also anticipates the approval of a Letter of Intent with the FAA for the commitment of future grants as possible funding sources for some of the planned capital improvements.

Stinson Municipal Airport, established in 1915 and named for the Stinson family, aviation pioneers, is one of the country's first municipally owned airports. During 2001, a process was initiated to develop a new Airport Master Plan for the Stinson Municipal Airport. The Stinson Municipal Airport Master Plan will provide recommendations for airfield and facility improvements needed to meet growing operation demands. The Planning effort will facilitate the development of the Airport to expand its role as a general aviation reliever to the San Antonio International Airport. The expansion of Stinson's facilities are also needed to take advantage of new, complementary business opportunities evolving with the synergy between Brooks City-Base, KellyUSA and the Airport. As part of the master planning process, a Target Industries Analysis is being conducted, which will facilitate development of Stinson properties through the identification of industries and businesses considered to be good prospects for locating at the Airport.

City Public Service

City Public Service (CPS), owned by the City, provides electric and gas services to San Antonio and surrounding areas. As of January 2002, CPS owns and operates 16 electric generating units capable of producing 4,327 megawatts (MW) of power from natural gas, oil and coal. CPS also owns 700 MW of nuclear generating capacity in the South Texas Project plus the rights to another 160 MW of wind generation, which brings the total CPS capacity to 5,817 MW. During fiscal year 2002, CPS's generation was obtained from the following sources: coal, 48.9%; nuclear, 30.5%; and natural gas, 19.5%. Wind energy and purchased power accounted for 1.1%. As the second largest municipally owned utility in the nation, CPS serves more than 592,000 electric customers throughout its 1,566 square-mile service area, and about 307,000 natural gas customers in the urban San Antonio area.

To the citizens' benefit, CPS rates are lower than any major Texas city and among the lowest in the nation. The average CPS residential gas and electric bill ranked second lowest among the 20 largest cities in the United States for the twelve months ending December 2001. CPS remitted over \$168 million to the City in fiscal year 2002. Representing a steady and increasing source of revenue for the City, this return helps keep property taxes low and enhances the funding of many city services offered to residents. Additionally, for its August 2002 debt transaction, CPS was awarded a AA+ rating by Standard & Poor's, which is the highest rating they have ever awarded to a publicly owned utility. This rating makes CPS the highest rated publicly owned utility in the nation.

San Antonio Water System

The City's waterworks system, initially acquired in 1925, was included in a consolidation in 1992 of all City owned water related utilities including water, wastewater, and water reuse systems. This consolidation created the San Antonio Water System (SAWS), which now provides water and wastewater service to San Antonio and certain surrounding areas. SAWS provides water and wastewater service to the majority of the population within the corporate limits the City of San Antonio and Bexar County which totals approximately 1.4 million residents. Currently, SAWS provides water and wastewater service to 297,661 and 351,250 customers respectively, including residential, commercial, industrial and irrigation customers. SAWS has 4,076 miles of water mains in place and 4,892 miles of wastewater mains in place.

Infrastructure Development (Continued)Basic Infrastructure Components (Continued)Housing and Development

The City's administration of housing and infrastructure development initiatives are being accomplished through initiatives such as the Housing Master Plan, Neighborhood Sweeps, Neighborhood Commercial Revitalization, Down Payment Assistance, Owner Occupied Rehabilitation and Reconstruction, Single-Family/Multi-Family Rental Rehabilitation, Affordable Showcase of Homes, Tax Increment Financing, and the Housing Asset Recovery Program managed through the Neighborhood Action Department. In continuation of the Mayor and City Council's community revitalization efforts, the City is developing public policies to support inner city revitalization in distressed areas.

In support of the Mayor and City Council's community revitalization efforts, the Neighborhood Action Department has defined a strategy for data gathering efforts to aid in the development of a comprehensive investment plan for the Community Revitalization Action Group (CRAG) target area, which encompasses the original 1940 city limit boundaries.

Housing Asset Recovery Program

In an innovative approach to revitalization, the Neighborhood Action Department partnered with the Fannie Mae San Antonio Partnership Office utilizing a line of credit to rehabilitate valuable housing stock and thus create affordable housing opportunities for low to moderate-income families in San Antonio. Since 2001, the Housing Asset Recovery Program (HARP) takes a non-productive, residential structure and creates a useful asset for the community. Individuals, non-profit organizations, corporations, or any owner of a single-family home, residential lot, or tract of land can donate or sell the asset to the City. Beyond the flood recovery program, in most instances, the home can remain on the existing lot and is rehabilitated on site. In other cases, such as in school expansion projects, a home may need to be relocated to another city-owned parcel of land. To finalize the HARP transaction, the City refers the "project" to Fannie Mae for rehabilitation and sale. Once the home has been renovated, a licensed real estate broker lists and sells the property on behalf of the City. Net proceeds from the sale of the home are returned to the City for reinvestment in affordable housing and to replenish the line of credit in order to acquire additional projects.

Housing Master Plan

In June 2001, the City was presented with a Housing Master Plan completed by J-QUAD & Associates, LTD, SA Research Corporation, and McConnell, Jones, Lanier and Murphy, LLP. The Master Plan is a result of recommendations found in the Community Revitalization Action Group Report and the Housing Performance Review. Both documents indicated a need for an overall plan to guide housing development in the City.

The Master Plan identifies and provides a series of recommendations for housing initiatives, processes and comprehensive development for the City. The Master Plan also provides a baseline and understanding of current conditions found in San Antonio's housing market as well as presents a definition of continuum of care and affordable housing. The Master Plan also makes a series of recommendations concerning the retooling of programs and processes to enable implementation of the recommendations defined in the plan. These recommendations are currently under review by the City Council Urban Affairs Committee.

Neighborhood Sweep Program

The Neighborhood Action Department coordinated and delivered 24 neighborhood sweeps during fiscal year 2002. Over the last five years, 110 communities have been recipients of this comprehensive service delivery program. The neighborhood sweeps represent an inclusive package of city services, such as code investigations, brush collection, street/pothole repair, graffiti and vacant lot abatement, that are delivered to a 55-60 block area over a period of two weeks. The program is designed to accomplish both short-term "clean-up" goals and long-term community development goals including accessing safe, decent housing and assisting special need populations.

Infrastructure Development (Continued)Basic Infrastructure Components (Continued)Neighborhood Commercial Revitalization

The Neighborhood Commercial Revitalization (NCR) Program was created to bring renewed interest and investment to San Antonio's older commercial corridors. The NCR Program is currently working in eight target areas throughout the City's urban core. The NCR Program provides financial and technical assistance to community based non-profit organizations that undertake a full-time revitalization effort. The NCR Program is based on identifying and marketing the competitive advantages of these business districts in the hope of attracting private investment in new and existing businesses, thus creating job opportunities and enhancing the quality of life in the surrounding neighborhoods. Collectively, NCR target areas have realized \$4,850,500 in private investments and 326 new jobs. During fiscal year 2003, the program will be assessed in an effort to pursue alternatives for greater program success and productivity, as the participants continue to implement strategies that will support inner city revitalization.

Down Payment Assistance Program/Homebuyers Club

In fiscal year 2002, the Neighborhood Action Department provided families with down payment and closing cost assistance toward their purchase of a home. The Department will continue to provide up to \$8,000 for families wishing to purchase single family homes in the San Antonio area. In addition, there were 485 participants who attended the City's Homebuyers classes, which provide information on the steps to prepare for homeownership.

Owner Occupied Rehabilitation & Reconstruction Programs

The Neighborhood Action Department administers the Owner-Occupied Rehabilitation and Reconstruction Program that provides loans and grant funds for renovation or reconstruction of housing units for qualifying families. This Program which supported the rehabilitation/reconstruction of 32 properties is funded through the US Department of Housing and Urban Development providing Community Development Block Grant and HOME funds. The Department works closely with the families to determine rehabilitation and/or reconstruction needs based on assessments of the housing structure. The Department is responsible for providing oversight and monitoring of construction activities for the projects. All applicants must meet eligibility and income qualifications.

Rental Rehabilitation Program

The Neighborhood Action Department's Rental Rehabilitation Program provides funds for both single-family and multi-family rental units. It has been noted that much of the rental housing stock within the inner city is substandard and in need of rejuvenation; however, there are numerous challenges associated with ensuring revitalization such as historic integrity, environmental hazard, deferred maintenance and elderly property owners. Funds for this program are made available through the US Department of Housing and Urban Development providing CDBG and HOME funds.

The Rental Rehabilitation Program has a loan product specifically targeted for single-family dwellings. Property owners can borrow up to 100% of the rehabilitation costs; 50% is paid to the City at 5% interest; 50% is forgiven during the Period of Affordability provided the owner complies with the program guidelines. During fiscal year 2002, 198 units were made available to low-moderate income families as a result of assistance through this program.

Tax Increment Financing

In the summer of 2002, the City's Tax Increment Financing (TIF) program was undergoing major review in preparation to revise the TIF guidelines and criteria. This review was completed in Fall 2002 and will work to stimulate major new construction and rehabilitation throughout the City. This program provides a means of presenting incentives that carry real costs by paying public improvement costs from the increased tax revenues generated by the project itself. The public purposes of TIF projects include the redevelopment of blighted areas,

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Tax Increment Financing (Continued)
construction of low and moderate-income housing, provision of employment opportunities, and improvement of the tax base.

The program assessment provided for additional resources in order to efficiently respond to the TIF applications pending. The onset of the revised guidelines will facilitate higher standards of development for TIF projects through additional development requirements. The Neighborhood Action Department is projecting to complete 8 new project applications in fiscal year 2003.

Housing Policy Guide

For the past 16 months, the City has been working with a Task Force to review its housing policies which apply to all housing projects funded through the Community Development Block Grant (CDBG) and the Home Investment Partnership Program (HOME). These HUD programs provide additional resources for the City to address housing issues and the new policies are designed to maximize efficient use of those resources. The new policies ensure that the City will receive some portion of its investment on every housing project while still assisting residents who need safe, sanitary and decent housing.

Neighborhood Development/Partnerships

Neighborhood Development/Partnerships are an innovative strategy being utilized to tackle inner city revitalization through private development. CDBG and HOME funds have been allocated as seed money to stimulate development in urban neighborhoods. The City will release Requests for Proposals to qualified developers to redevelop the Sunny Slope neighborhood and a targeted neighborhood in Council District 4 through housing rehabilitation and construction of new infill housing. The City has already invested millions of dollars in capital improvements in the Sunny Slope area, which should make it attractive for private investors. This pilot program will stimulate increased activity in neighborhoods that have not seen new development in years.

Department of Community Initiatives

The Department of Community Initiatives (DCI) serves as the primary human development agency for the City. In this role, DCI coordinates community-based human investment strategies designed to strengthen families, develop human capital, and provide a community safety net. Additionally, DCI acts as a vehicle for collaboration between public and private organizations. This focused facilitation strives to leverage and maximize resources toward significantly improving the community's human development outcomes. In fiscal year 2003, DCI will invest almost \$130 million in human development. The DCI budget supports the City's strong commitment to strengthening long-term economic viability in San Antonio through the development of human capital.

DCI supports human development efforts at all stages of life, beginning with early childhood development and continuing through adult education. DCI carries out these human development strategies primarily through early childhood education, kindergarten readiness, youth development, college scholarships, preparation for transitional employment, long-term job training and adult literacy services, and asset building and asset protection strategies.

DCI's early childhood education goal is to provide high quality and affordable childcare in order to improve workforce participation and prepare children to enter school ready to succeed. Through Head Start, the Child Care Delivery System and local initiatives, the Department will provide childcare to over 16,000 low-income children of parents participating in workforce activities.

The City provides \$11 million in In-Kind contributions to the Head Start program to support this early care and education goal. Additionally, the City certified almost \$8 million in local expenditures that attracted \$12.5 million in federal matching dollars to further underwrite the City's aggressive early care and education initiative. Over the past four years, the City has drawn down proportionately more federal matching early childhood funds

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Department of Community Initiatives (Continued)
than any other Texas community. The Kindergarten Readiness Project strengthens families by empowering parents to serve as their child's first teacher and prepares children for elementary school by developing their mastery of problem solving, communications and life skills. Kindergarten Readiness operates fully in 17 elementary school neighborhoods. To increase public awareness about the issue of school readiness and parental involvement, DCI initiated Early On, a multi-media campaign to disseminate the Kinder Readiness guidelines. Last year, the Kinder Readiness Project engaged over 3,300 parents and 260 teachers in the use of the guidelines. According to a University of Texas at San Antonio (UTSA) research study on the project, 88% of children assessed displayed mastery of the guidelines. The project distributed more than 46,000 brochures through public and private partnerships.

The San Antonio Education Partnership (SAEP) encourages students to stay in school and advance to higher education by providing advising services, college preparation activities and scholarships to students who graduate with a 95% attendance rate and 80% grade point average. Annually, the SAEP serves over 15,000 9th through 12th grade students at the 15 participating high schools. Since the program's inception, over 1,200 scholarship recipients have received their Bachelor's degrees from local colleges and universities.

Funded primarily through the City, Project QUEST serves as an employer and industry driven long-term job training program. Moreover, all the training facilitated through Project QUEST serves the City's five targeted industries by providing them with skilled and educated workers. The program serves undereducated adults who have completed high school or a GED certificate. Since the program's inception in 1993, over 1,800 participants have completed training and have been placed in jobs at an average wage of \$9.90.

DCI's Literacy Services Division offers adult education services including GED preparation, adult basic education, English as a Second Language (ESL), and computer literacy. In addition, the Department has implemented a transitional jobs component in partnership with local employers to improve the workplace skills of residents who have a limited work history. This initiative provides comprehensive career readiness and life skills training including intensive job counseling, motivational sessions, financial literacy and job placement. In fiscal year 2002, over 300 adult learners completed these programs and were placed in jobs.

To assist low-income working families transition out of poverty and achieve economic self-sufficiency, DCI has developed the Family Economic Success Program. This program offers asset-building strategies including Volunteer Income Tax Assistance (VITA). Last year, tax preparer volunteers prepared over 2,000 tax returns for low-income working families, which translated in over \$2 million returned. DCI will expand VITA services to 14 sites in fiscal year 2003. This expansion will serve over 4,000 families in returning almost \$6 million to these families.

Strategic partnerships, which demonstrate a high level of impact and public accountability, will continue to be the key to successfully raising the community's education and skill levels, and improving quality of life. Over the last year, DCI continued to strengthen existing partnerships and form new strategic alliances. For example, the Kindergarten Readiness Project operates in collaboration with Bexar County school districts, childcare centers, UTSA, and community based organizations including Family Services Association, KLRN, AVANCE and YMCA. The Department's other essential partners include but are not limited to the United Way, Annie E. Casey Foundation, Alamo Workforce Development, Inc., (AWD), Smart Start, Tourism Council, employers and congregations.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Technology Services Department (ITSD)

The Information Technology Services Department (ITSD) provides information technology (IT) services, 24 hours a day, 7 days a week, to all City departments and other agencies through information and technology sharing agreements. The Information Technology Vision of the City is to provide business solutions that will enhance the City's effectiveness in serving its employees, citizens, businesses and visitors through the successful use of IT. The City uses IT to be more cost efficient, deliver better and more comprehensive services, and provide easy access to information. Demands for the ability to conduct business electronically, allow for faster response time, increase participation and involvement in government, along with economic pressures to do more with less, are major factors that affect the use of technology at the City.

As the City continues its Security Initiative to institute new security policies, guidelines and operating procedures for all City systems, its goal is to protect the City's infrastructure by reducing risks, complying with laws and regulations, and ensuring business continuity, information integrity and confidentiality. The City is involved with Homeland Defense and Emergency Management Technology Support Systems and with the Dark Screen Project initiated by Representative Ciro Rodriguez. Dark Screen is a consortium of local, county, state and federal entities involved in preventing cyber terrorism. This Dark Screen operation will test the response capabilities of the City and the surrounding regions to a cyber-terrorist attack; will recommend and develop methods for industry, law enforcement, government and academia to cooperatively protect critical infrastructures; and, will serve as a model for other cities in preparing for a cyber-terrorist attack or similar event. ITSD continues to update its business continuity plans and to monitor, maintain, revise and disseminate current security policies, procedures and administrative directives to ensure they are current.

The San Antonio Community Portal provides Internet access to enhance the City's effectiveness and efficiency in serving its employees, citizens, businesses and visitors. The City's website, sanantonio.gov, strives to seamlessly extend services and improve communications between the City and the Community-at-large. During 2002, e-commerce, including on-line payments, was implemented to provide San Antonio stakeholders one-stop access to government information and services.

The Alamo Area Community Information System Initiative (AACIS), an ongoing partnership of non-profit, educational and government agencies, is dedicated to improving the quality of life in San Antonio by making Internet access and social service delivery more accessible, particularly to the underserved in our community. In support of AACIS, the City's is hosting a community hub, a device consisting of integrated telecommunication components which will efficiently link local networks, maintained by separate Greater-San Antonio organizations, into a single Internet-based metropolitan area network (MAN).

Information Technology is the employment of computer hardware, software, networks and telecommunications to process and distribute information in digital, audio, video and various other forms. The City has developed an Information Technology Plan to provide a coordinated information technology planning effort across all departments of the City and to effectively manage the City's technology investments in concert with its strategic business processes. This plan is intended to be dynamic and is updated annually to reflect changes in technology, trends, and the organization.

In an effort to stabilize the desktop computing environment and to improve technology performance, reliability and service across departments, the City will begin leasing PC equipment on a three-year replacement schedule. This program will establish a standard desktop program for City PCs that will provide a uniform operating platform, consistent support and functionality for end-users.

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Technology Services Department (ITSD) (Continued)

The ITSD Customer Service Initiatives will implement Customer First practices by streamlining communication with customers, establishing a 24/7 help desk, publishing service level standards and providing training for professional growth of ITSD and City staff. The GIS/Mapping Initiatives continue to implement the City's GIS Master Plan and the mapping backbone that can be used to satisfy the spatial and mapping requirements of internal and external users.

Enterprise Resource Management (ERM) Project

The Enterprise Resource Management Project is an initiative to reengineer business processes and replace existing software systems in order to improve efficiency, accountability, and to provide enhanced services to the customers of the City. Project sponsors include the City Manager's Office, Director of Finance, and Director of Information Technology Services. The City has hired a consulting firm to assist with this effort. The ERM Project consists of three phases: Phase 1 – needs assessment, definition of “to be processes”, and development of the business case was completed in September, 2001; Phase 2 – software and hardware selection which was completed in July 2002; and, Phase 3 – software implementation and integration which will be completed by December 2004.

Code Compliance Department

The Code Compliance Department seeks to enhance neighborhoods and their citizens' health, safety and general welfare through efficient and effective City Code enforcement. This Department also strives to promote a higher quality of life by promoting awareness and compliance with City Codes to stabilize and reverse deterioration of neighborhoods.

The Department's fiscal year 2002 staff complement for code enforcement includes 68 Code Enforcement Officers, 10 Dangerous Premises Officers, and 10 Abatement Officers. Each Code Officer patrols the City in marked vehicles equipped with a computer laptop providing effective and efficient code enforcement activities. Monitoring vacant lots is an example of one activity that falls under this Department's jurisdiction of enforcement for improving the quality of life for the citizens of San Antonio.

Public safety is one of the City's major concerns in its enforcement of overgrown vacant lots. Abandoned properties, whether vacant lots or structures, present adverse conditions impacting the quality of life in the community. The Department recognizes these issues and is attempting to increase community awareness and voluntary compliance by encouraging and developing partnerships with neighborhood organizations, community groups, and local businesses to ensure a safer, cleaner and more beautiful San Antonio.

If private property lots are not cleaned by their owners, the City hires a private contractor. Contracting with small businesses to perform the cleanups helps stimulate the local economy, in addition to accomplishing the Department's objectives. The majority of these private contractors are small business operators and/or Historically Underutilized Businesses (HUBs). This business activity is an opportunity that allows small business owners to compete with larger businesses. In fiscal year 2002, \$494,460 was expended on vacant lot clean up through these contracts.

Medicine and Healthcare

The City is cognizant of the importance of, and continues to support, its Medical infrastructure. The City is actively involved in promoting the industry, recognizing its significance to San Antonio and its citizens. Major medical research, manufacturing, training and health care facilities located in San Antonio include the Southwest Biomedical Research Institute, high technology biomedical manufacturing, the University of Texas Health Science Center at San Antonio (medical school, dental school, nursing school, allied health sciences school), the

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Medicine and Healthcare (Continued)
University Health System, Wilford Hall Medical Center (United States Air Force), Brooke Army Medical Center, a world renowned burn treatment and research center, and the South Texas Medical Center. The Medical Center contains numerous hospitals, a specialized treatment center and the renowned Cancer Therapy and Research Center that attracts patients nationally and internationally. In addition, Brooks City-Base is a major medical and environmental research facility of which the U.S. Air Force Medical Service is a major tenant.

The San Antonio Metropolitan Health District is the local public health agency for the City. It provides preventive health services, health code enforcement, clinical services, environmental monitoring, animal control, disease surveillance and control, emergency preparedness, health education, dental services, and is the local registrar of vital statistics.

Developmental Services

In May 2001, the San Antonio Municipal Facilities Corporation (an entity created by the San Antonio City Council in February 2001) authorized the execution of a Developmental Agreement for the design, construction, and purchase of a facility for the Development and Business Services Center, a/k/a One Stop. Construction began in January 2002 and is scheduled to be completed and the facility occupied by April 2003. The purpose of this Center is to provide a convenient single source of information and assistance to businesses and organizations that are expanding, developing, or relocating. The Center, centrally located at the northwest corner of South Alamo and South Flores streets on the south side of the City's Central Business District, is a two-story state of the art facility, encompassing approximately 75,000 square feet along with over 300 parking spaces and situated on 5.3 acres of land.

The Center will house an estimated 230 employees of governmental entities and various City departments including Development Services, Planning, Health, Fire Inspections/Fire Marshall, and the Economic Development/Small Business Outreach Program, as well as individuals from various business development organizations, the water, electric, and gas utilities, and related departments of Bexar County.

With the opening of the Development and Business Center, space in the Municipal Plaza Building will be vacated. The Department of Asset Management, in conjunction with the City Architect's Office and with the assistance of various other departments, is developing a plan for the backfill of the vacated space. The focus of this plan is to provide additional space for the overcrowded departments, co-locate certain functions for efficiency, and minimize the amount of rent being paid for leased space in the downtown area.

Contracting Initiatives

In July 2001, the City Council approved the creation of the Contract Services Unit, a division of the Department of Asset Management. This division has focused on creating and promoting City-wide standards and systems for improving the management of contracts through the development and implementation of: 1) standards for contract management, planning, and solicitation; 2) strategies to streamline contract negotiation and approvals; 3) rigorous monitoring practices; and 4) training programs for contract officers. As a part of this process, the Electronic Contract Management System was developed and serves as a central repository for City-wide contracting data. Recent accomplishments of the Unit include completion of training classes on Contract Law and Contract Negotiation, the first two required courses of the Contract Officer Certification Program training. In addition, the Unit has been charged with the review and approval of all Requests for Proposal for professional services contracts. As a part of the Contract Services Unit's efforts to create City-wide standards for contract management, a staff manual is being developed which outlines the various processes related to contracts. Staff will be trained on the content and use of this manual and the manual will be continually updated and available on the City's intranet.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Environmental Services Department

The Environmental Services Fund receives most of its revenues from the Residential Solid Waste Fee, Brush Fee, and the Environmental Fee as collected by City Public Service. Additional revenues to this fund are generated from Licensing and Permitting Fees, Mulch and Brush Disposal Fees, and Out of Cycle Collections. The fund supports both Environmental Management and the Solid Waste Divisions of the Environmental Services Department.

The Solid Waste Division is responsible for the collection of municipal solid waste generated by over 300,000 homes and businesses within the City of San Antonio. The primary services provided by this Division include: bi-weekly collection of residential garbage, weekly curbside collection of residential recyclables, dead animal collection, downtown night garbage collection, and the bi-annual collection of residential brush and bulky items. Other services include Out-Of-Cycle collection requests for brush and bulky items, supporting neighborhood associations and civic groups through the weekend Dial-A-Trailer program, sponsorship of Keep San Antonio Beautiful Association. The Solid Waste Division also provides cleanups for special events, weather related emergencies and high priority needs of the City.

The Environmental Management Division is responsible for ensuring City property and construction projects are in compliance with all federal, state and local environmental rules and regulations. This Division assesses and investigates the environmental conditions of land, air and groundwater for the City. Other major responsibilities of the Division involve administering the City's Air Quality and Household Hazardous Waste (HHW) Programs, monitoring and maintaining the City's closed landfills, and overseeing or performing asbestos assessments and environmental remediation. This division also provides technical support for the City's efforts related to energy conservation and compliance with Senate Bill 5--State legislation requiring 25% reduction in energy consumption by City facilities over the next 5 years.

Public Works Department

The Public Works Department provides public services and infrastructure in a quality manner through the use of modern engineering and management practices. The department provides design, construction, maintenance and renovation of City buildings, streets and drainage facilities, and operates the traffic network.

Significant projects underway include the Northeast Service Center located along the Wurzbach Parkway. The facility consists of vehicle maintenance operations for Purchasing, Street Maintenance Operations under Public Works, and garbage collection services by Environmental Services Department. This facility also includes a 3,000 square foot multi use space for meetings and public use. Construction is expected to begin on Bulverde Fire Station No. 48 and the Guerra Library on Military Drive. The St. Mary's Parking Garage was completed in 2002 and accommodates 704 spaces with office space for lease. The Presa Street Linkage Project completed in 2002 connects the Riverwalk to Houston Street, which includes ADA access to the river. Another downtown project completed in 2002 is the Houston Street Streetscape Enhancements project.

The Capital Programs Division completed 24 street and drainage projects at a cost of \$14,353,479. These projects will minimize flooding, reduce the number of potholes, reduce traffic delays, and allow for greater mobility.

The Streets Maintenance Division implemented the first year of the pavement reclaimer that is specifically designed for full-depth street reclamation. The reclaimer also recycles existing asphalt in place instead of having to purchase new asphalt for street maintenance projects. The addition of the reclaimer cut the amount of time it takes to reconstruct street surfaces by 50%. Customer service is improved by minimizing inconvenience to the citizens while working in their neighborhoods. Recycling of the existing asphalt diverts waste from the landfill. The additional paver purchased is used to assist city crews in meeting increased customer demand for paved asphalt projects with smooth riding surfaces and skid resistance to improve safety.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Works Department (Continued)

Neighborhood Accessibility & Mobility Program (NAMP) funding has been increased to \$325,000 for each council district and the scope of work under this program has been expanded from sidewalks and speed humps to other transportation improvements such as street maintenance, small street repair, traffic signals, school flashers, pedestrian walkways and medians. The additional funding and expansion of projects under NAMP will be positive for neighborhoods needing specific improvements.

The adoption of the Right of Way (R.O.W.) ordinance by City Council in May 2001 will significantly impact the City's infrastructure by requiring utilities, telecommunications companies and others needing to excavate City streets make repairs to those streets to maintain integrity and life of the streets. Public Works implemented e-commerce processing of R.O.W. permits on-line to improve customer convenience in obtaining street cut permits. The prior system required applicants to drive to the permit office to obtain the permit. This significant improvement makes the process much more convenient for customers. This process also provides R.O.W. staff the opportunity to develop an inventory of all permitted excavations for the purpose of monitoring the integrity of past street repairs.

The record flood of 1998 prompted some major policy changes that have provided a more proactive approach to flood control. One of the major initiatives was to conduct a "buy-out" of properties within the floodplain to prevent the possibility of future catastrophic damage and potential loss of life. The flood of 2002 emphasized the need for continued efforts to be more proactive in flood control efforts. This voluntary buy-out continues today. The adoption of the Unified Development Code (UDC) in May 2001 provided a revised Storm Water Management section and further codified the Floodplain Ordinance. The UDC uses a watershed management approach. Storm Water Engineering is reorganizing to form Watershed Teams for the Leon Creek, Salado Creek and San Antonio River watersheds. The new UDC also developed specific conditions under which floodplain development may occur without jeopardizing the City's goals of natural floodplain preservation and flood mitigation providing for orderly development.

The Interlocal Agreement (ILA) for Regional Flood Control Management Program (RFCMP) forged over the past year to provide for a collaborative and cooperative effort between the City, County, and SARA to deal with water quantity and quality issues. The agreement allows for suburban city participation. Through the ILA, the city will acquire the tools needed to effectively provide storm water master plans for each of the watersheds. This effort will be funded by SARA's ad-valorem tax and is estimated to cost \$6 million. The RFCMP will provide for a strategic financial model, an annual and 5 year capital improvement program, standardized design and maintenance criteria, a county-wide water quality model, hydraulic and hydrologic models for each watershed and a unified service delivery by three governmental entities.

An electronic instrumentation and control system was installed on the two flood control tunnels. These tunnels are monitored electronically 24 hours a day, seven days a week. The Foxboro system ensures the control and direction of storm flows into or bypassing the two tunnels. It also monitors the flood level behind the Olmos Basin Dam, which is a critical part of the system that ultimately safeguards the safety of the citizens and commerce in the Downtown Central Business District.

Supporting Infrastructure Components

Convention Center Expansion

The Convention Center Expansion and Renovation Project was completed in 2001. This project was financed from the proceeds of Hotel Occupancy Tax Revenue Bonds sold in March of 1996, and debt service payments are

Supporting Infrastructure Components (Continued)

Convention Center Expansion (Continued)

paid from the collection of a 2% Hotel Occupancy Tax. This construction represents the first major expansion and improvement of the Henry B. Gonzalez Convention Center since 1987. The Convention Center was originally built in 1968 for the San Antonio Worlds Fair, HemisFair. The Convention Center is located within the downtown area of San Antonio and is within walking distance of numerous hotels, retail shops, restaurants, historic amenities, and the City's River Walk.

The Convention Center Expansion Project, which includes 867,495 square feet of additional space to the Center and renovations, construction and upgrades of the original center, is fully operational, with more than 1.3 million gross square feet. The Convention Center boasts 440,000 square feet of contiguous exhibit space, 113,287 square feet of meeting room space with optimum flexibility of up to 59 room divisions. Three hotel quality ballroom/banquet rooms, with the largest at 40,000 square feet is designed to hold up to 4,000 people. The Center also includes two full service banquet kitchens, two loading docks, a pressroom, VIP lounge, dressing rooms, and 29,000 square feet of designated registration areas. The navigable portion of the river construction and the River Walk continuing into Plaza Mexico in HemisFair Park, were completed during the summer of 2001. Interior finishes throughout the Convention Center, East and West Banks, include artist-designed carpet patterns incorporating elements of San Antonio's history and culture. Also featured is an in-house business center to service many of the Convention Center clients. This service is operated by a nationally recognized leader in business center services and enhances the Center's marketability. The completed Convention Center allows the City to improve its competitive position to attract large, revenue generating conventions, and to expand tourism, while enhancing the viability of the local economy for San Antonio.

Alamodome

The Alamodome is a 65,000 seat multi-purpose sports, entertainment, and convention facility. Since opening in May 1993, it has held more than 900 events and has hosted over thirteen million visitors. The Alamodome has enhanced San Antonio's ability to attract major public sporting and entertainment events.

In the fall of 1999 the citizens of San Antonio approved a referendum for the construction of a mid-size, multi-purpose arena for the San Antonio Spurs Basketball Team. This arena, the SBC Center, was completed October 2002 and the Spurs moved to this facility in November 2002. The financial impact of the Spurs departure on the Alamodome remains to be seen, but the facility will continue to be a viable economic generator for the City.

The Alamodome maintains a strong reputation as a host for major events. As a result, the diversity of events that are brought to San Antonio continues to expand. The NCAA will host the Men's Southern Regional Basketball Tournament in 2003, the Men's Final Four Basketball Tournament in 2004, and the 2005 Women's Volleyball Championship. In the next five years, the Alamodome will increasingly become a community facility in addition to serving as a multi-purpose venue for major sporting events, convention activities and concerts as well as civic, religious, and social events. With the increased number of booking dates and improved scheduling flexibility as a result of the departure of the Spurs, the Alamodome will continue to court high-school football games, meeting room and trade show events, family shows and concerts.

Efforts are ongoing to secure recurring events for the Alamodome. The Alamodome negotiates with promoters of recurring events to hold their events at the Alamodome for a sustained period of time, usually five (5) years. These events include: the San Antonio Boat Show; Ringling Brothers Barnum & Bailey Circus; Disney on Ice; Arena Motor Cross; Monster Truck Show; the Texas Classic High School Football Kickoff Game; House Beautiful Show; and American Cheer Power.

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ECONOMIC OVERVIEW (Continued)
Supporting Infrastructure Components (Continued)

Nelson W. Wolff Municipal Stadium
The Nelson W. Wolff Baseball Stadium opened in April 1994 and has a seating capacity of 6,500. It has a multi-purpose design which allows for events such as professional baseball, concerts, boxing, and high school, college, and amateur sports. The stadium is home to the San Antonio Missions, a *double A* minor league baseball team. In 2000, the Missions became a farm club of the Seattle Mariners. The Missions won the Texas League Championship in 2002 for a second time since moving to the stadium.

Other Amenities
The City supports and promotes various other tourism and quality-of-life amenities, including performing arts and cultural entertainment facilities, museums, the San Antonio Zoo, and the preservation of the Alamo, as well as enterprises such as Sea World of Texas, and Six Flags Fiesta Texas. The City also provides support and funding for cultural organizations, from dance performance companies to the Symphony Society of San Antonio, and for facilities including the Witte Museum, the San Antonio Museum of Art, the Southwest Craft Center, the Carver Community Cultural Center, and the Guadalupe Cultural Arts Center.

In addition, San Antonio is home to various professional sports teams including the San Antonio Spurs, the San Antonio Rampage Ice Hockey team, and the San Antonio Missions. San Antonio also hosts two PGA tour events, the Valero Texas Open and Senior PGA SBC Championship.

International Outlook

For the third year, the City's International Affairs Department continues to develop an Export Leaders Program that focuses on small to medium size San Antonio companies with a high potential and strong commitment to develop and expand international markets. The San Antonio Export Leaders Program is a competitive eight-month program that offers the tools, training, consultation and coaching necessary for about fifteen companies to be successful in exporting and offers the participants a new export experience. In its three years, the program graduated 36 companies.

San Antonio continues to develop itself as an INLAND PORT for imports and exports to/from Mexico, Latin America and other regions of the world. This encompasses transportation, manufacturing and logistics facilities, professional services and value-added services involved in producing, marketing and moving freight within, into and out of the San Antonio area. Over the past nine years, the City has operated three commercial trade offices in Mexico's three largest cities: Mexico City, Guadalajara, and Monterrey. The trade office in Mexico City has expanded to service seven southeastern Mexican states of Oaxaca, Chiapas, Quintana Roo, Veracruz, Campeche, Tabasco and Yucatan.

The City's commitment to international trade is evidenced in the City's new International Center which houses the North American Development Bank, International Conference Center, the Trade Commission of Mexico, Mexican State Trade Office, the Free Trade Alliance San Antonio, the U.S. Department of Commerce, the City's International Affairs Department, and the Convention & Visitors Bureau.

Budgetary Controls

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end, however, encumbrances generally are appropriated as part of the following year's budget. For the

Budgetary Controls (Continued)

fiscal year beginning October 1, 2001, the Government Finance Officers Association of the United States and Canada ("GFOA") presented an award of Distinguished Budget Presentation to the City.

As demonstrated by the statements and schedules in the Financial Section of this report, the City continues to meet its responsibility for sound financial management. As in the Financial Section, all monetary amounts presented in the remainder of this letter are expressed in thousands, except where noted.

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics

Pension and Postemployment Retirement Benefits

The City provides pension retirement benefits for its eligible employees through two plans. For uniformed Fire and Police employees, retirement benefits are provided through the Fire and Police Pension Fund, a single-employer defined benefit retirement plan. Contribution and benefit levels are established under State statute. For fiscal year 2002, active members contributed 12.32% of covered payroll, or \$21,808 and the City contributed 24.64%, or \$43,615.

The City provides all other eligible employees, exclusive of fire and police employees, retirement benefits through the Texas Municipal Retirement System (TMRS), a nontraditional, joint contributory, hybrid defined benefit plan. TMRS is a statewide agent multiple-employer public employee retirement system. Contributions to the system are actuarially determined. The required contribution from City employees is 6%, while the City matches at a rate of approximately 11.63%. Both the City and its covered employees made the required contributions of \$23,147 and \$11,947 respectively. For additional information on the City's pension plans, see Note 8 in the notes to the financial statements.

With respect to postemployment health benefits, the City provides benefits for all non-uniformed City retirees and for all, pre-October 1, 1989 uniformed fire and police retirees. The cost of the program is reviewed annually and actuarially determined costs of medical claims are funded jointly on a pay-as-you-go basis with the City contributing 2/3 and the retirees contributing 1/3 of the cost. As of September 30, 2002, 1,405 retirees were participating in the program and currently there are 6,650 active civilian employees who may become eligible for this program in the future.

The second postemployment health benefit program provides retirement health care benefits for eligible fire and police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). Contribution and benefits levels are established under the City's collective bargaining agreements with the Fire and Police Unions, respectively. The benefits of this plan are financed on a prefunded basis. For fiscal year 2002, the City contributed \$15,300 to the Fund and active employees and retirees contributed \$1,222. Recent actuarial studies have resulted in different results and indicate that the current contribution levels are not sufficient to amortize the unfunded liability of the Fund. The City continues to review the Fund in order to develop a comprehensive framework for a long-term solution. For additional information on City's postemployment health benefits, please see Note 9, of the notes to the financial statements.

Cash and Investment Management

The City's investment policies are governed by state statute and the City's own written investment policies. Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; investment diversification, yield, maturity, and the quality and capability of investment management; and include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "investment strategy statement" that specifically addresses each fund's investment. Each investment strategy statement will describe strategy

FINANCIAL INFORMATION (Continued)
Fiscal Management and Administrative Topics (Continued)

Cash and Investment Management (Continued)

objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

The City is authorized to use demand accounts, time accounts, and certificates of deposit, and other permissible investments including Obligations of the U.S. Treasury and U.S. Agencies, Obligations of States and Cities, Commercial Paper, Repurchase Agreements, Money Market Funds, and Investment Pools. The City's investment portfolio includes investment in callable obligations, but does not contain any derivative products. It is not the City's policy to use such investment vehicles or strategies in its portfolio, nor does the City leverage its investments.

At September 30, 2002, investable City funds were 86.71% invested in obligations of the United States, or its agencies and instrumentalities, and 10.79% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 2.50% of the City's portfolio includes the convention center debt service reserve fund of \$16,999, which was invested in fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and the City's investment policy objectives, which are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings. For additional information on Cash and Investments, please see Note 3 of the notes to the financial statements.

Risk Management Programs

For the fifth time in eleven years, the Insurance Reserve Fund maintained a positive net assets balance of \$3,103 for the fiscal year 2002. Whereas, the Workers' Compensation Fund reflected a negative net assets balance of \$2,505. The Insurance Reserve and Workers' Compensation Funds carried cash reserves at September 30, 2002 in the amount of \$14,182 and \$12,922, respectively.

The Risk Management Division Safety Office has continued aggressive efforts this year to promote Accident Prevention/Loss Control projects. This year 3,216 employees received formal classroom training on a number of subjects, totaling 15,112 classroom hours collectively. Training classes include Defensive Driving, First Aid and CPR, Drug and Alcohol Awareness training for commercial drivers and supervisors, New Employee Safety Orientations, Professional Truck Driving, Supervisor's Accident Investigation training, Hazardous Chemicals training, Ergonomics Awareness, and other specialized training courses. The Safety Office has spent in excess of 2,141 hours in delivering the aforementioned formal training.

In addition, the Safety Office continues to improve the quality of safety and health education to serve the needs of all City employees by developing customized training programs and updating training materials and/or training methods. The Safety Office has also provided Departments 1,801 hours of technical assistance and one-on-one informal training on a variety of safety and health topics in fiscal year 2002. It has initiated the use of a more comprehensive format during consultative visits with Departments this year to assist in identifying and evaluating both safety, health and liability risk exposure. Loss Control abatement measures are recommended wherever possible. Preventing cumulative trauma and repetitive motion injuries have continued to receive major focus by the inspection and evaluation of employee work environments with recommendations for adjustments or changes when needed. Facility inspections and accident investigations are also conducted by the Safety Specialists. Review of accident statistics continues to represent a significant area of responsibility for the Section in order to assist Departments in identifying and correcting negative trends in frequent and loss severity. This year, 5,122 employee driver evaluations were processed with records being updated.

Employee Benefits Program

The City's Self-Insurance Fund continues to experience increased expenses due to rising health care costs, increased prescription drug costs, increased claims volume and changing employee demographics. The City

FINANCIAL INFORMATION
Fiscal Management and Administrative Topics (Continued)

Employee Benefits Program (Continued)

continues to focus on cost containment programs such as: hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization to assist in managing the rising cost of medical care. Such strategies have been effective for the City in managing medical cost in a changing health care industry. The City is in the process of hiring a Case Management Nurse and Utilization Review Specialist to support the cost containment programs and aid in identifying additional cost savings. The City has also utilized the services of an outside consultant to conduct a three-year actuarial study and plan design review for the Employee Benefits program. The total cost savings for fiscal year 2003, as a result of plan changes, is estimated at \$805. In fiscal year 2002, the Employee Benefits Fund had cash reserve of \$1,042 and a deficit net assets balance of \$13,000. For additional information on the City's risk and employee benefits programs, please see Note 12, of the notes to the financial statements.

Debt Administration

The City utilizes a comprehensive, debt management financial planning program (The Debt Management Plan), which is updated annually. The Debt Management Plan is a major component of the City's financial planning. The model projects financing needs while measuring and assessing the cost and timing of each debt issuance. It involves comprehensive financial analysis which utilizes computer modeling, and incorporates variables such as interest rate sensitivity, assessed values changes, annexations, and current ad valorem tax collection rates. Use of this financial management tool has assisted the City in meeting its financing needs by facilitating timely and thorough planning which has allowed the City to capitalize on market opportunities.

Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "Aa2", "AA+" and "AA+" bond rating by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Public Ratings Services, a division of McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") respectively. The positive trend in the City's credit strength is evidenced by S&P's rating upgrade in December 1998 from "AA" to its current "AA+" and Fitch's rating upgrade in October 1999 from "AA" to "AA+". For additional information on the City's long-term debt, please see Note 6 of the notes to the financial statements.

OTHER INFORMATION

INDEPENDENT AUDIT

State statutes require that an annual audit by an independent certified public accountant be conducted. The City's Audit Committee selected the accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA in 2002. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and related OMB Circular A-133. The Independent Auditors' Report on the basic financial statements, management's discussion and analysis (required supplementary information), required disclosures and schedules are included in the Financial Section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996 and OMB Circular A-133 are in a separate document.

SPECIAL ELECTION ISSUES

On November 6, 2001 the citizens of San Antonio approved three charter amendments during a special election. Proposition one creates the position of independent City Auditor, providing that the appointment and removal of the Internal Auditor will be by the City Council. The proposition provides that all employees of the Internal Audit Department will work for the City Auditor, and the department will work to perform financial, fiscal compliance and other audits as directed.

(Monetary Amounts Expressed in Thousands)

SPECIAL ELECTION ISSUES (Continued)

Proposition two provides the appointment of the City Attorney by the City Manager to be confirmed by the City Council. The proposition provides that the City Manager may remove the City Attorney with advice of the City Council, and that an assistant city attorney may perform the duties of the City Attorney, at the City Attorney's discretion.

Proposition three removes certain licensed professionals and executive job classifications from Municipal Civil Service coverage and protection. It specifically mentioned assistant directors of City departments, architects, assistant auditors, attorneys, dentists, doctors, engineers, psychologists, veterinarians, and part-time and seasonal employees. The proposition also provides for alternate members to the Municipal Civil Service Commission.

AWARDS

San Antonio's appeal to its citizens, potential businesses and visitors stems from its historical beauty, high quality of life and low cost of living. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended September 30, 2001. This was the 26th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. The report must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. The Certificate of Achievement is valid for a period of one year and we believe the current CAFR continues to meet the Certificate of Achievement Program's requirements.

In March 2002, the City's Aviation Department received the FAA's "Texas 2001 Outstanding Airport of the Year" award for the San Antonio International Airport. This award is given to one airport in each of the five states in the FAA's Southwest region. It is presented in recognition of an airport's overall management in its use of Federal funds, diligence in planning and implementing projects, airport maintenance, use of airport improvement program resources and compliance with FAA safety standards.

The City of San Antonio was recognized by the Department of Justice in July of 2002 for its compliance with the Americans with Disabilities Act (ADA) in a meeting in Washington, D.C. The City was high-lighted for its efforts to follow the guidelines of Project Civic Access, a wide-ranging federal initiative to ensure that state facilities, counties, cities, towns, and villages comply with the ADA. The Department of Justice is featuring a story and photographs of San Antonio and its residents on the ADA web page at www.ada.gov.

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2002, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division. Each member of the Department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Manager, Assistant City Managers, Assistants to the City Manager, and their staff, for their continued support.

Respectfully Submitted,



Milo Nitschke
Director
Finance Department

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio,
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



William Patrick Pate
President

Jeffrey L. Esser
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of San Antonio for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2001. This was the 26th consecutive year that the City has achieved this prestigious award.

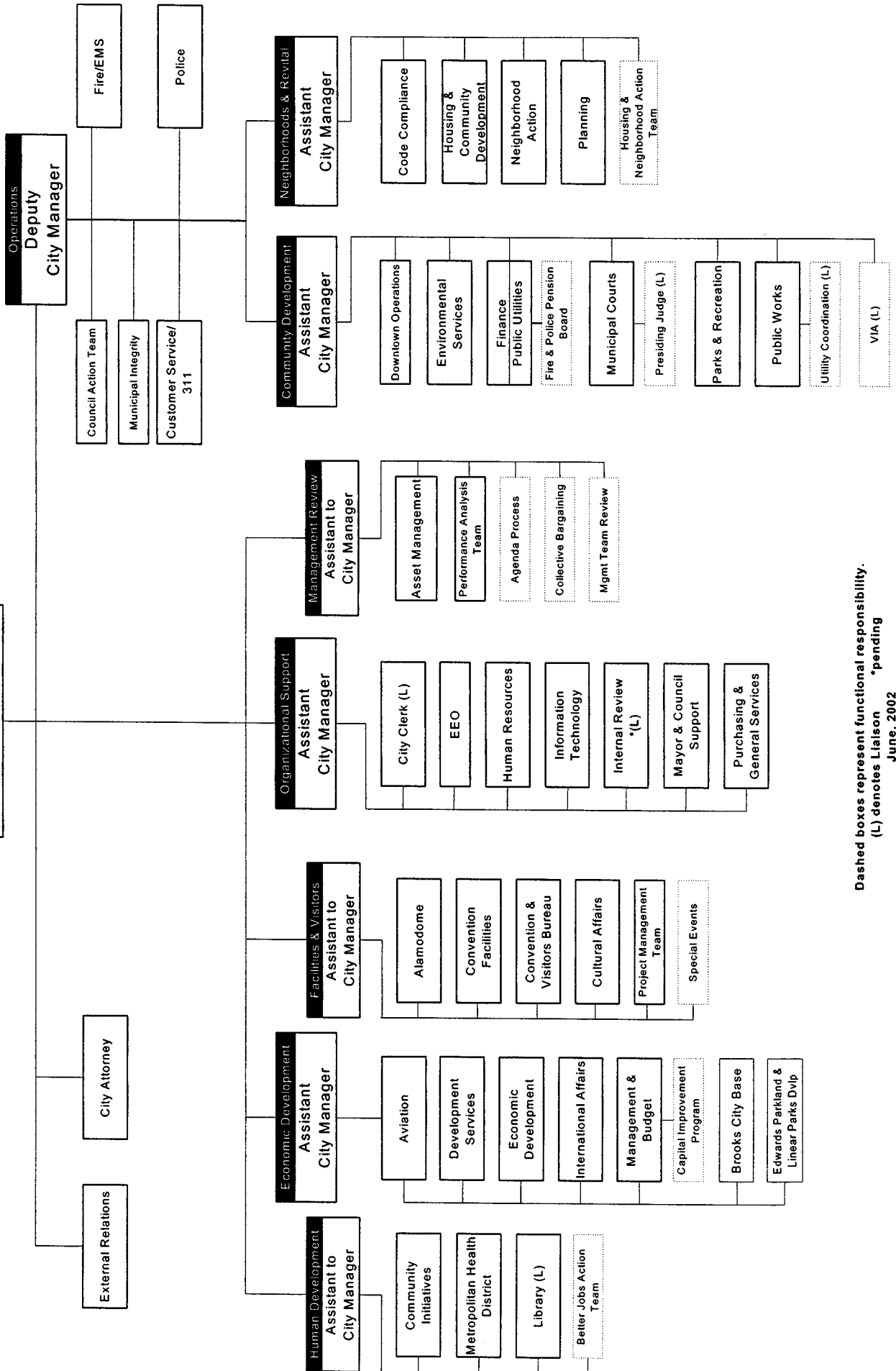
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

City of San Antonio

MAYOR & CITY COUNCIL

CITY MANAGER



Dashed boxes represent functional responsibility.
(L) denotes Liaison *pending
June, 2002

CITY OF SAN ANTONIO, TEXAS

Incorporated December 14, 1837

Charter Adopted October 2, 1951

Council - Manager Form of Government

CITY COUNCIL

Edward D. Garza, Mayor

Bobby Perez

John H. Sanders

Antoniette Moorhouse

Enrique Martin

Nora X. Herrera

Enrique M. Barrera

Julian Castro

Bonnie Conner

Carroll W. Schubert

David Carpenter

CITY MANAGER

Terry M. Brechtel

DEPUTY CITY MANAGER

J. Rolando Bono

ASSISTANT CITY MANAGER

Travis M. Bishop

ASSISTANT CITY MANAGER

Christopher J. Brady

ASSISTANT CITY MANAGER

Melissa Byrne Vossmer

ASSISTANT CITY MANAGER

Jelynnne L. Burley

ASSISTANT TO THE CITY MANAGER

Roland A. Lozano

ASSISTANT TO THE CITY MANAGER

Frances A. Gonzalez

ASSISTANT TO THE CITY MANAGER

Erik J. Walsh

**MEMBER OF THE GOVERNMENT FINANCE OFFICERS
ASSOCIATION OF THE UNITED STATES & CANADA**

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***City of San Antonio
Texas***

Financial Section

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***City of San Antonio
Texas***

Independent Auditors' Report

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112 East Pecan, Suite 2400
San Antonio, TX 78205-1585



Robert J. Williams
Certified Public Accountant
P.O. Box 34058
San Antonio, TX 78265-4058

LEAL & CARTER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
11122 Wurzbach Rd. / Suite 200
San Antonio, Texas 78230-2573

Independent Auditors' Report

The Honorable Mayor
and Members of City Council
City of San Antonio, Texas:

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of and for the year ended September 30, 2002, which collectively comprise the City of San Antonio, Texas' basic financial statements as listed in the accompanying table of contents under "Basic Financial Statements." These financial statements are the responsibility of the City of San Antonio, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain discretely presented component units and blended component units included in the governmental and fiduciary funds of the City of San Antonio, Texas, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP and Leal & Carter, P.C., acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, are based solely on the reports of the other auditors.

		Percent not jointly audited											
		Total assets		Total revenue									
Government-wide													
Governmental activities		0%		0%									
Business-type activities		0%		0%									
Discretely presented component units		24%		13%									
Fund statements													
Major funds		0%		0%									
Aggregate remaining fund information		76%		19%									
		Percent audited by KPMG separately		Percent audited by Leal & Carter separately		Percent audited by Robert J. Williams separately							
		Total assets		Total revenue		Total assets		Total revenue					
Government-wide													
Discretely presented component units		0%		0%		1%		1%		0%		0%	
Fund statements													
Aggregate remaining fund information		5%		3%		0%		0%		0%		0%	



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City of San Antonio, Texas has implemented a new financial reporting model, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective October 1, 2001.

The Management’s Discussion and Analysis on pages 1 through 11, the Budgetary Comparison schedule on page 111, and Schedules of Funding Progress and Employer Contributions on pages 112 through 114 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We, and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we, and the other auditors, did not audit this information and express no opinion on it.

KPMG LLP Robert Williams CPA Leal & Carter, P.C.

February 28, 2003



***City of San Antonio
Texas***

***Management's Discussion and Analysis
(Required Supplementary Information)
(Unaudited)***

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2002. This discussion and analysis is intended to assist readers in focusing on significant financial issues, changes in the City's financial position, and identifying any significant variances from the adopted budget. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the financial statements provided in this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City exceeded its liabilities by \$2,466,912 (net assets). Of this amount, \$116,612 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$455,756, an increase of \$10,808 compared to the fiscal year 2001 fund balance. The total unreserved fund balance of \$124,698 is available for spending at the government's discretion. Of this amount, \$52,297 is designated and \$72,401 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$53,658, or 10.4% of the total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction of the City of San Antonio's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business financial presentation.

The *statement of net assets* is a presentation of the City's assets and liabilities, including capital and infrastructure assets, and long-term liabilities. This statement reports the difference between assets and liabilities as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information regarding increases and decreases to the government's net assets for the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, sanitation, health services, environmental protection and control, culture and recreation, convention and tourism, conservation, urban redevelopment and housing, welfare and economic development opportunity. The business-type activities of the City include the airport system, parking system, and environmental services.

In addition, the basic financial statements provide information regarding the City's legally separate discretely presented component units. Component unit financial information is reported separately from the primary government in the government-wide financial statements.

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are used to present financial information detailing resources that have been identified for specific activities. The focus of the fund financial statements is on the City's major funds, although non-major funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into three types: governmental, proprietary, and fiduciary. Fund financial statements allow the City to present information regarding fiduciary funds, since they are not reported in the government-wide financial statements.

Governmental funds. Governmental funds are used for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

As the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The City of San Antonio maintains five individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund, debt service fund and the general obligation bond fund, all of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each nonmajor governmental fund is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the functions presented in business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its airport, parking and environmental services funds. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions, including, self-insurance programs, other internal services and information technology services. The services provided by these funds predominantly support the governmental rather than the business-type functions. They have been included within the governmental activities in the government-wide financial statements that are reported alongside the business activities.

Proprietary fund financial statements provide separate and more detailed information for the airport, parking, and environmental services funds. The airport and parking funds are considered major funds of the City while internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. Fiduciary funds are not reflected in the government-wide financial statements as the resources of those funds are not available to support the City's programs and operations. The accounting for fiduciary funds is much like that used for the proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information on the City's General Fund budget, which is adopted on an annual basis. A budgetary comparison statement has been provided for this funds in order to demonstrate budgetary compliance with this budget.

Government-wide Financial Analysis

GASB 34, Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments, requires that the City provide a comparative analysis of government-wide data. Since this is the first year of implementation, the comparative data is not available for this fiscal year. In future years, when prior year information is available, the City will be in a position to provide the government-wide data comparisons on governmental and business-type activities as required by GASB.

City of San Antonio Net Assets September 30, 2002			
	Governmental Activities	Business-type Activities	Total Activities
Current and Other Assets	\$ 632,243	\$ 222,870	\$ 855,113
Capital Assets	2,938,157	276,008	3,214,165
Total Assets	3,570,400	498,878	4,069,278
Other Liabilities	129,128	14,633	143,761
Long-term Liabilities	1,184,719	273,886	1,458,605
Total Liabilities	1,313,847	288,519	1,602,366
Net Assets:			
Invested in Capital Assets,	2,036,269	152,261	2,188,530
Net of Related Debt	109,693	52,077	161,770
Restricted	110,591	6,021	116,612
Total Net Assets	\$ 2,256,553	\$ 210,359	\$ 2,466,912

For the year ended September 30, 2002, total net assets exceeded liabilities by \$2,466,912. The largest portion of the City's net assets (89%) is its investment in capital assets less any related debt used to acquire those assets that is still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment. In addition, as of September 30, 2002 the City is required to report infrastructure assets in its financial statements for the first time.

Capital assets are used to provide services to the citizens of San Antonio and are not available for further spending. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Of the total net assets, 6% (\$161,770) represent resources that are subject to external restrictions on how they may be used. The remaining 5% (\$116,612) represent unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

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City of San Antonio Changes in Net Assets For the fiscal year ended September 30, 2002

	Governmental Activities	Business-type Activities	Total Primary Government
REVENUES:			
Program Revenues:			
Charges for services	\$ 133,821	\$ 94,814	\$ 228,635
Operating Grants and Contributions	183,849	5,040	188,889
Capital Grants and Contributions	16,400		16,400
General revenues:			
Property Taxes	225,740		225,740
Other Taxes	233,851		233,851
Revenues from Utilities	171,632		171,632
Investment Earnings	13,504	3,365	16,869
Net Decrease in			
Fair Value of Investments	(423)	(74)	(497)
Miscellaneous	12,269	7,610	19,879
Gain on Sale of Capital Assets	1,703	50	1,753
Capital Contributions	481		481
Total Revenues	992,827	110,805	1,103,632
EXPENSES:			
Primary Government:			
Governmental Activities:			
General Government	77,887		77,887
Public Safety	414,382		414,382
Public Works	131,010		131,010
Sanitation	7,909		7,909
Health Services	78,662		78,662
Environmental Protection and Control	194		194
Culture and Recreation	76,400		76,400
Convention and Tourism	49,754		49,754
Conservation	15		15
Urban Redevelopment and Housing	17,038		17,038
Welfare	133,818		133,818
Economic Development Opportunity	27,322		27,322
Commercial Paper Fees	13		13
Interest on Long-term Debt	54,628		54,628
Business-type Activities:			
Airport System		41,941	41,941
Parking Facilities		8,693	8,693
Environmental Services		48,223	48,223
Total Expenses	1,069,032	98,857	1,167,889
Increase/(Decrease) in Net Assets before transfers	(76,205)	11,948	(64,257)
Transfers	(2,072)	(2,072)	
Net Increase/(Decrease) in Net Assets	(74,133)	9,876	(64,257)
Beginning Net Assets	2,330,686	200,483	2,531,169
Ending Net Assets	\$ 2,256,553	\$ 210,359	\$ 2,466,912

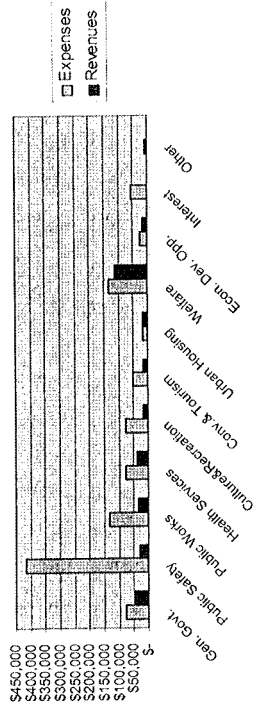
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Governmental Activities

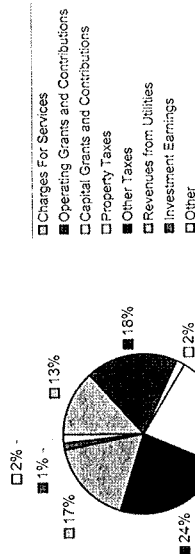
The City's total revenues were \$1,103,632 for the fiscal year ended September 30, 2002. Revenues from governmental activities totaled \$992,827 and revenues from business-type activities totaled \$110,805. General revenues represented 61% of the City's total revenue, while charges for services and operating grants provided 39% of revenue received in fiscal year 2002.

Expenses for the City totaled \$1,167,889. Governmental activity expenses totaled \$1,069,032, or 92% of total expenses.

Expenses and Revenues-Governmental Activities



Revenues by Source - Governmental Activities

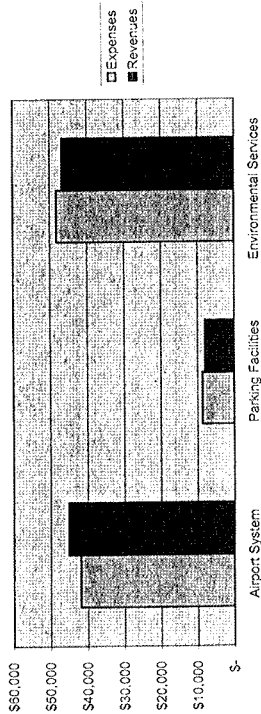


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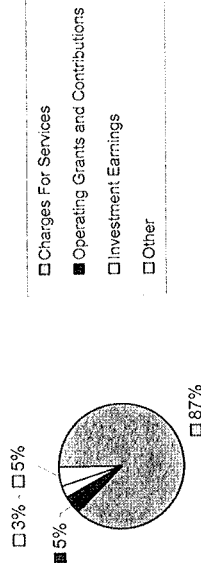
Business-Type Activities

Program revenues for the City's business-type activities totaled \$99,834. Expenses for business-type activities were \$98,857. The remaining revenue was a result of interest and other miscellaneous items.

Expenses and Revenues Business-Type Activities



Revenues by Source - Business-Type Activities



Financial Analysis of Governmental Funds

Activities of the Primary Government's General Fund, Special Revenue Funds, and Debt Service Funds are considered general government functions. The General Fund is the City's general operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted as to expenditure. The Debt Service Funds are used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations.

Revenues from taxes increased by \$24,928 which was primarily attributable to: (1) a \$13,605 or 10.84% increase in property tax revenue for the General Fund, (2) a \$3,274 or 2.39% increase in sales tax revenue in the General Fund, and (3) a \$5,958 or 7.27% increase in property tax revenue for the Debt Service Fund as a result of increased property valuation, new construction, and annexation. Revenues for the utilities category, which is represented in the City's General Fund decreased by \$16,706 or 8.89% which is primarily attributed to a decrease of \$17,293 in the City's payment from CPS which is based on CPS' gross revenues. CPS revenues are impacted by variables such as fuel costs, weather, types of electric generation used as well as other factors.

The total fund balance of the General Fund at year-end was \$62,452, a decrease of \$33,746 from the total fund balance of \$96,198 for the close of fiscal year 2001. The total unreserved fund balance for fiscal year 2002 is \$53,638, which represents \$33,861 in designated and \$19,797 in undesignated fund balance. The undesignated fund balance, which represents amounts available for additional appropriations, in the General Fund at the close of the fiscal year decreased by \$29,640 from the previous year.

The total fund balance of the Debt Service Fund at year-end was \$89,348 a increase of \$1,051 from the total fund balance for the close of fiscal year 2001. The entire fund balance is reserved for payment of debt service.

The total fund balance for the Capital Projects - General Obligation Bonds fund at year-end was \$91,400, an increase of \$35,386 from the total fund balance for the close of fiscal year 2001. The unreserved fund balance all of which makes up the undesignated fund balance in the General Obligations Bonds Fund was \$52,828.

General Fund Budgetary Highlights

Significant Variances in Budget Appropriations General Fund

	Original Budget	Final Budget	Actual Results
General Government	\$ 66,430	\$ 69,352	\$ 57,213
Public Safety	347,042	354,820	351,557
Public Works	9,971	10,325	10,245
Health Services	13,696	13,716	14,076
Sanitation	2,566	2,567	2,663
Welfare	17,476	18,318	17,662
Culture and Recreation	61,237	62,403	59,755
Economic Development and Opportunity	6,723	8,324	7,632
Transfers to other funds	69,458	74,881	76,102
Total	\$ 594,599	\$ 614,706	\$ 596,905

Changes in original budget appropriations to the final amended budget appropriations were a \$20,107 increase in appropriations. This increase can be summarized by the following discussion.

General government had a \$2,922 budget increase composed of an increase of \$10,784 of budget carry forwards and a \$7,862 budget decrease. Of the \$7,778 increase in public safety, \$2,260 was due to budget carry forwards, \$4,464 was funded out of budget decreases in general government and \$1,054 was budgeted from available fund balance. Public works had a \$354 budget increase composed of an increase of \$359 of budget carry forwards and a \$5 budget decrease. The \$20 budget increase in health services was due to a \$22 budget increase of budget carry forwards and a \$2 budget decrease. Sanitation had a \$1 increase due to budget carry forwards. Of the \$842 increase in welfare, \$876 was an increase for budget carry forwards and \$34 was for budget decreases. The culture and recreation \$1,166 increase was due to \$930 for budget carry forwards and \$236 was funded from decreases in general government. The \$1,601 increase in economic development and opportunity was due to a \$1,322 increase in budget carry forwards and \$279 was funded from decreased budget transfers in the general fund. The \$5,423 increase in transfers was due to \$2,811 in budget carry forwards and \$2,612 was funded from various government functions for the Brooks City-Base project.

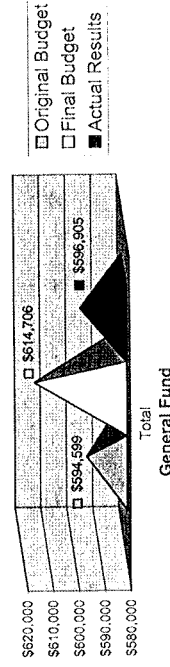
Final budgeted appropriations for the General Fund were \$614,706 while actual expenditures were \$596,905, creating a positive variance of \$17,801 in the following functions. Significant variances are as follows:

- General Government had a \$12,139 positive variance composed of \$3,803 of budgeted salaries, \$2,403 of anticipated payments to the Bexar County Detention Center and \$5,933 of appropriations identified for various one-time projects yet to be completed

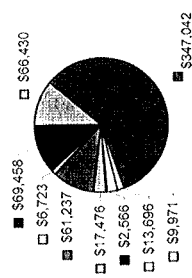
- Public Safety had a positive variance in the amount of \$3,263 attributable to \$1,316 in savings in salaries in the Police Department, \$950 in contractual services due to an unrealized budgeted increase in police clothing allowance and an adjustment for the Public Safety Radio Project, \$90 in unrealized capital expenditures, \$473 in unrealized commodities such as supplies and repairs and maintenance, and \$434 in unrealized insurance expenditures
- Culture and Recreation had a \$2,648 positive variance composed of \$1,720 of savings in temporary services and salaries in the Parks and Recreation Department, \$237 of savings in salaries in the Library Department, \$576 of unrealized commodities such as supplies, library resources, and repairs and maintenance, and \$115 of savings in other expenditures such as insurance
- Transfers to other funds reflect a negative variance in the amount of \$1,221 due to the inclusion of the Human Development Fund actual net activities in the amount of \$1,448 which are budgeted in a Special Revenue Fund. For presentation purposes the Human Development Fund is included with the General Fund. In addition, there were \$227 of budgeted transfers, which were not made during the fiscal year.

The following charts provide a comparison of the City's budget appropriations.

Significant Variances in Budget Appropriations - Fiscal Year 2002

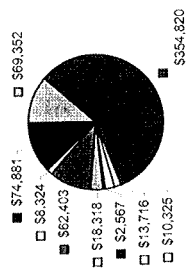


Budget Appropriations by Function Original Budget-General Fund



- General Government
- Public Safety
- Public Works
- Health Services
- Sanitation
- Welfare
- Cul & Rec
- Eco Dev & Opp
- Trfs to other funds

Budget Appropriations by Function Final Budget-General Fund



- General Government
- Public Safety
- Public Works
- Health Services
- Sanitation
- Welfare
- Cul & Rec
- Eco Dev & Opp
- Trfs to other funds

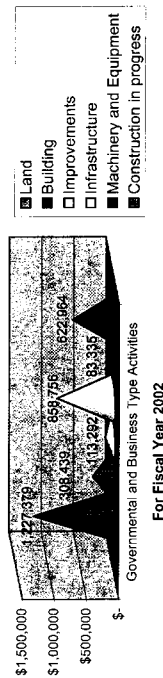
Capital Assets

The City of San Antonio's investment in capital assets for its governmental and business-type activities as of September 30, 2002, amounts to \$3,214,165 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, and machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was 2.15 percent (3.53 percent decrease of governmental activities and a 5.68 percent increase for business-type activities). The City's infrastructure assets are included in fiscal year 2002.

The following schedule provides a summary of the City's capital assets:

Capital Assets (Net of Depreciation) As of September 30, 2002			
	Governmental Activities	Business-Type Activities	Total
Land	\$ 1,215,391	\$ 11,988	\$ 1,227,379
Buildings	233,466	74,973	308,439
Improvements	26,747	86,545	113,292
Infrastructure	858,756		858,756
Machinery and Equipment	78,899	4,436	83,335
Construction in progress	524,898	98,066	622,964
Total capital assets	\$ 2,938,157	\$ 276,008	\$ 3,214,165

Total Capital Assets \$3,214,165



Change in Capital Assets September 30, 2002

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$ 3,038,497	\$ 261,162	\$ 3,299,659
Additions	134,174	23,449	157,623
Deletions	(153,222)	(1,517)	(154,739)
Accumulated Depreciation	(81,292)	(7,086)	(88,378)
Total	\$ 2,938,157	\$ 276,008	\$ 3,214,165

Additional information on the City's capital assets can be found in Note 4 of the notes to the financial statements.

Debt Administration

At the end of the current fiscal year, the City of San Antonio had a total of \$1,293,801 in bonds, certificates, revenue bonds and commercial paper outstanding, an increase of 16% over last year. Additional information on the City of San Antonio's long-term debt, including descriptions of the new issues, can be found in Note 6 in the Notes to the Financial Statements.

City of San Antonio's Outstanding Debt September 30, 2002

	Governmental Activities	Business-Type Activities	Total
Bonds Payable:			
General Obligation Bonds	\$ 669,473	\$ 12,855	\$ 682,328
Tax-Exempt Commercial Paper	20,800		20,800
Tax-Exempt Certificate of Obligation	145,405	915	146,320
Taxable Certificate of Obligation	9,780		9,780
Revenue bonds	179,393	255,180	434,573
Total	\$ 1,024,851	\$ 268,950	\$ 1,293,801

On September 30, 2001, outstanding general obligation and revenue bonds, certificates, and commercial paper debt totaled \$1.112 billion. In November 2001, the City issued additional debt in the amount of \$150 million. The \$150 million was comprised of \$84,945 in general obligation bonds and \$65,195 in tax-exempt certificates of obligation. The general obligation bonds and certificates of obligation are to be utilized to fund capital improvement projects to include streets, drainage, flood control, park, and public safety. Also, a portion of the general obligation bonds was used to redeem \$15 million in commercial paper, and refund \$6 million of the City's outstanding tax supported debt. Additionally, in May 2002, the City issued \$251 million in general obligation forward refunding bonds, which were used to refund \$256 million of the City's outstanding tax supported debt.

In March 2002, the City issued \$130 million in Airport System Revenue Bonds. Proceeds of the bonds will be used to fund airport system improvements and renovations.

Standard & Poor's, Moody's and Fitch's underlying rating for City obligations are as follows:

	Std & Poor's	Moody's	Fitch
General Obligation/ Certificate of Obligation	AA+	Aa2	AA+
Airport	A+	A1	A+
Airport PFC	A-	A2	A+
Convention Center	A+	A	A
Parking	A+	A2	A+

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2002 was \$44,120,535, which provides a debt ceiling of \$4,412,054.

Requests for Information

This financial report is designed to provide a general overview of the City's position for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, P.O. Box 839966, San Antonio, TX 78283-3966.

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***City of San Antonio
Texas***

Basic Financial Statements

STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2002
(In Thousands)

	PRIMARY GOVERNMENT BUSINESS-TYPE		COMPONENT
	GOVERNMENTAL ACTIVITIES	ACTIVITIES	UNITS
		TOTAL	
Assets			
Cash and Cash Equivalents	\$ 156,717	\$ 4,507	\$ 321,832
Investments	316,598	11,289	37,996
Receivables (net)	109,955	6,572	146,213
Due from Fiduciary Funds	344		
Due from Other Governmental Agencies	36,704	(3,283)	1,873
Internal Balances	3,283		
Inventories of Materials and Supplies, at Cost	6,051	663	104,639
Prepaid Expenses	32	17	29,018
Deposits	1,064		
Restricted Assets:			
Cash and Cash Equivalents		52,229	64,287
Investments		145,592	1,000,115
Receivables - Accrued Interest		426	8,757
Prepaid Expenses		478	
Capital Assets:			
Non-depreciable	1,740,289	110,054	667,796
Depreciable, net	1,197,868	165,954	5,622,460
Prepaid Rent Long Term - Leaseback			575,551
Unamortized Debt Expense	1,495	4,380	33,122
Total Assets	3,370,400	498,878	8,613,659
Liabilities			
Accounts Payable and Other Current Liabilities	98,919	10,205	200,633
Deferred Revenues	19,929	784	130
Accrued Interest	7,966	4	7,970
Accrued Bond and Certificate Interest		3,640	5,595
Due to Other Governmental Agencies	2,314		2,546
Noncurrent Liabilities:			
Due within one year	106,568	8,839	107,012
Due in more than one year	1,078,151	265,047	4,576,462
Total Liabilities	1,313,847	288,519	4,892,378
Net Assets			
Invested in Capital Assets, net of related debt	2,036,269	152,261	2,650,990
Restricted for:			
Debt Service	91,340	28,650	22,192
Capital Projects			7,400
Specific Purpose Programs	13,698		
Operations and Maintenance		1,660	13,698
Equipment Renewal and Replacement		1,500	1,660
Improvement and Contingency		20,267	1,500
Perpetual Care:			721,193
Expendable	1,740		
Nonexpendable	1,378		1,740
Other purposes	1,537		1,378
Unrestricted	110,591	6,021	1,537
Total Net Assets	2,256,553	210,359	319,506
			3,721,281

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The accompanying notes are an integral part of these financial statements.

CITY OF SAN ANTONIO, TEXAS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

FUNCTION/PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General Government	\$ 77,887	\$ 47,835	\$ 395	\$ 0
Public Safety	414,382	18,897	10,821	1,331
Public Works	131,010	22,062	1,672	12,235
Sanitation	7,909			
Health Services	78,662	14,438	21,991	
Environmental Protection and Control	194	10,817	17	374
Culture and Recreation	76,400		6,448	1,035
Conservation and Tourism	49,734	18,148		
Conservation	15			63
Urban Redevelopment and Housing	17,038		16,031	830
Welfare	131,818	230	110,669	5
Economic Development Opportunity	27,312	1,394	15,805	527
Commercial Paper Fees				
Interest on Long-term Debt	54,628			
Total governmental activities	1,069,032	133,821	183,849	16,400
Business-type Activities:				
Airport System	41,941	40,119	5,040	
Parking Facilities	8,693	7,978		
Environmental Services	48,243	46,717		
Total business-type activities	98,877	94,814	5,040	
Total primary government	\$ 1,167,889	\$ 228,635	\$ 188,889	\$ 16,400
Component units:				
San Antonio Water System	134,067	134,705	0	6,950
City Public Service	1,223,532	1,200,846		73,096
Other Component Units	35,004	31,403		16,480
Total component units	\$ 1,396,603	\$ 1,366,954	\$ 0	\$ 96,526

General Revenues:

Taxes:	
Property Taxes	
General Sales and Use Taxes	
Selective Sales and Use Taxes	
Gross Receipts Business Taxes	
Occupancy Taxes	
Penalties and Interest on Delinquent Taxes	
Revenues from Utilities	
Investment Earnings	
Net (Decrease) in Fair Value of Investments	
Miscellaneous	
Gain (Loss) on Sale of Capital Assets	
Capital Contributions	
Transfers (net)	
Total General Revenues, Special Items, and Transfers	
Cumulative Effect of Change in Accounting Policy	
Change in Net Assets	
Net Assets - Beginning	
Net Assets - Ending	

The accompanying notes are an integral part of these financial statements.

CITY OF SAN ANTONIO, TEXAS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

FUNCTION/PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General Government	\$ 77,887	\$ 47,835	\$ 395	\$ 0
Public Safety	414,382	18,897	10,821	1,331
Public Works	131,010	22,062	1,672	12,235
Sanitation	7,909			
Health Services	78,662	14,438	21,991	
Environmental Protection and Control	194	10,817	17	374
Culture and Recreation	76,400		6,448	1,035
Conservation and Tourism	49,734	18,148		
Conservation	15			63
Urban Redevelopment and Housing	17,038		16,031	830
Welfare	131,818	230	110,669	5
Economic Development Opportunity	27,312	1,394	15,805	527
Commercial Paper Fees				
Interest on Long-term Debt	54,628			
Total governmental activities	1,069,032	133,821	183,849	16,400
Business-type Activities:				
Airport System	41,941	40,119	5,040	
Parking Facilities	8,693	7,978		
Environmental Services	48,243	46,717		
Total business-type activities	98,877	94,814	5,040	
Total primary government	\$ 1,167,889	\$ 228,635	\$ 188,889	\$ 16,400
Component units:				
San Antonio Water System	134,067	134,705	0	6,950
City Public Service	1,223,532	1,200,846		73,096
Other Component Units	35,004	31,403		16,480
Total component units	\$ 1,396,603	\$ 1,366,954	\$ 0	\$ 96,526

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2002
(In Thousands)

	MAJOR FUNDS			GENERAL OBLIGATION BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL	DEBT SERVICE				
ASSETS						
Cash and Cash Equivalents	\$ 4,087	\$ 25,006	\$ 28,423	\$ 85,954	\$	\$ 143,470
Investments	8,080	63,659	68,665	143,446		283,850
Receivables	81,881	10,345	193	88,782		181,201
Allowance for Uncollectibles	(8,321)	(1,217)	(26)	(62,488)		(72,052)
Prepaid Expenditures	27			\$		32
Due from Other Funds	12,435	325		2,549		15,309
Due from Other Governmental Agencies	381		2,292	33,756		36,429
Investments of Materials and Supplies, at Cost	2,659			1,685		4,344
Deposits				353		353
Total Assets	\$ 101,229	\$ 98,118	\$ 99,547	\$ 294,042	\$	\$ 592,936
Liabilities and Fund Balances						
Liabilities:						
Vouchers Payable	\$ 2,435	\$ 0	\$ 2,579	\$ 20,936	\$	\$ 25,950
Accounts Payable - Other	2,304		3,176	14,749		20,229
Accrued Payroll	3,458			1,590		5,048
Accrued Liens Payable	4,823			937		5,760
Deferred Revenues	25,729	8,722	2,291	14,057		50,799
Due To:						
Other Funds	28	48	101	27,614		27,791
Other Governmental Agencies				1,603		1,603
Total Liabilities	\$ 38,777	\$ 8,770	\$ 8,147	\$ 81,486	\$	\$ 137,180
Fund Balances:						
Reserved:						
Reserved for Encumbrances	6,108		38,572	192,654		237,334
Reserved for Inventories	2,659			1,685		4,344
Reserved for Prepaid Expenditures	27			\$		32
Reserved for Debt Service		69,857				69,857
Reserved for Convention Center Project		19,406				19,406
Reserved for Other Restricted Purposes		85				85
Unreserved:						
Designated						
Designated: Special Revenue Funds	33,861			15,725		33,861
Designated: Permanent Funds				2,711		2,711
Undesignated	19,797		52,828			72,625
Undesignated: Special Revenue Funds				60,311		60,311
Undesignated: Capital Projects Funds				(71,742)		(71,742)
Undesignated: Permanent Funds				11,207		11,207
Total Fund Balances	\$ 62,452	\$ 89,348	\$ 91,400	\$ 212,556	\$	\$ 455,756
Total Liabilities and Fund Balances	\$ 101,229	\$ 98,118	\$ 99,547	\$ 294,042	\$	\$ 592,936

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
AS OF SEPTEMBER 30, 2002
(In Thousands)

Fund Balances - Total Governmental Funds	\$	455,756
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets	1,215,391	
Land and Land Improvements	524,898	
Construction In Progress	367,649	
Buildings	1,939,300	
Improvements	59,395	
Infrastructure Assets	48,499	
Machinery and Equipment	1,939,300	
Less: Accumulated Depreciation	48,499	
Total Capital Assets	(1,259,290)	2,895,842
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds.		
Internal service funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.		31,435
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		60,535
Governmental bonds payable	(1,042,630)	
Premium on bonds	(18,674)	
Deferred Amount on Refunding	556	
Leases Payable	(7,592)	
Amounts received from notes & loans	(3,374)	
Unamortized Debt Expense	1,495	
Accrued Interest	(7,964)	
Arbitrage Rebate	(1,580)	
Compensated Absences	(107,252)	
Net assets of governmental activities	(1,187,015)	
	\$	2,256,553

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	MAJOR FUNDS				NONMAJOR GOVERNMENTAL FUNDS		TOTAL GOVERNMENTAL FUNDS	
	GENERAL	DEBT SERVICE	GENERAL OBLIGATION BONDS		GOVERNMENTAL FUNDS		GOVERNMENTAL FUNDS	
Revenues								
Taxes:								
Property Taxes	\$ 139,336	\$ 87,979	\$ 0	\$ 284			\$ 227,599	
General Sales and Use Taxes	140,085			17,508			157,593	
Selective Sales and Use Taxes	3,628						3,628	
Gross Receipts Business Taxes	26,042						26,042	
Occupancy Taxes				45,007			45,007	
Penalties and Interest on Delinquent Taxes	1,872	1,185		57			3,064	
Licenses and Permits	13,302						13,302	
Intergovernmental	2,889		2,921				186,828	
Revenues from Utilities	171,234			181,018			171,234	
Charges for Services	24,631			59,942			84,573	
Fines and Forfeits	10,829						10,829	
Miscellaneous	10,296			13,483			23,887	
Interest	1,879	3,520	108	4,773			12,409	
Net (Decrease) in Fair Value of Investments	(120)		(74)	(159)			(353)	
In-Kind Contributions				14,504			14,504	
Total Revenues	\$ 545,853	\$ 92,684	\$ 5,192	\$ 316,417			\$ 980,146	
Expenditures								
Current:								
General Government	56,155			8,678			64,833	
Public Safety	350,756			13,484			364,240	
Public Works	10,180			56,949			67,129	
Health Services	13,934			62,608			76,542	
Environmental Protection and Control				391			391	
Sanitation	2,654			2,654			2,654	
Welfare	16,991			116,169			133,160	
Culture and Recreation				15,531			74,985	
Convention and Tourism	59,454			49,764			49,764	
Conservation				63			63	
Urban Redevelopment and Housing				17,469			17,469	
Economic Development and Opportunity	7,330			18,578			25,908	
Capital Projects			37,652	80,285			117,937	
Debt Service:								
Principal Retirement		66,295					66,295	
Interest		49,092					49,092	
Insurance Costs		1,656					1,656	
Total Expenditures	\$ 517,454	\$ 117,043	\$ 37,652	\$ 439,969			\$ 1,112,118	
Excess (Deficiency) of Revenues Over (Under) Expenditures	28,399	(24,359)	(32,460)	(103,552)			(131,972)	
Other Financing Sources (Uses)								
Long-Term Debt Issued		261,930		65,195			390,050	
Payments to Refunded Bond Escrow Agent		(257,467)		3,374			(257,467)	
Amounts from Notes and Loans		(15,000)					(15,000)	
Redemption of General Commercial Paper		13,113	2,050	4,385			19,548	
Premium on Long-term Debt		22,834	3,159	126,628			162,819	
Transfers In	11,198			(87,913)			(161,544)	
Transfers Out	(73,343)			111,669			142,780	
Total Other Financing Sources (Uses)	\$ (62,145)	\$ 25,410	\$ 67,846	\$ 111,669			\$ 142,780	
Net Change in Fund Balances	(33,746)	1,051	35,386	8,117			10,808	
Fund Balances, October 1	96,198	88,297	56,014	204,439			444,948	
Fund Balances, September 30	\$ 62,452	\$ 89,348	\$ 91,400	\$ 212,556			\$ 455,756	

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

Net change in Fund Balances - Total Governmental Funds	\$ 10,808
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.	115,968
Expenditures for capital assets	(77,304)
Less current year depreciation	38,664
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	5,780
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.	(412,972)
Bond and loan amounts	1,554
Bond costs	15,000
Redemption of commercial paper	257,467
Payments to Escrow Agent	385
Amortization of Bond Premiums and Deferred Charges (net)	66,295
Principal payments	(72,271)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(39,235)
Internal service funds are used by management to charge the cost of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.	(17,879)
Change in net assets of governmental activities	\$ (74,133)

The accompanying notes are an integral part of these financial statements.

— CITY OF SAN ANTONIO, TEXAS —

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2002**
(In Thousands)

ASSETS	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES	
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS	
Current Assets:						
Cash and Cash Equivalents	3,556	331	620	4,507	\$	13,247
Investments	8,924	851	1,514	11,289		32,748
Receivables:						
Other Accounts	2,427	70	1	2,498		121
Less: Allowance for Uncollectibles	(488)	(69)		(557)		
Accrued Interest	26	2	6	34		115
Accrued Revenue	787	33	3,777	4,597		7
Due From Other Funds						22,329
Due From Other Governmental Agencies						441
Inventories	580	68	15	663		(166)
Prepaid Expenses	17			17		1,707
Deposits						
Total Current Assets	15,829	1,286	5,933	23,048		711
Restricted Assets:						71,260
Debt Service Accounts:						
Cash and Cash Equivalents	3,546	121		3,667		
Investments	27,488	939		28,427		
Prepaid Expenses	478			478		
Receivables-Accrued Interest	152	4		156		
Due From Other Funds				48		
Construction Accounts:						
Cash and Cash Equivalents	38,335	3,881	122	42,338		
Investments	92,424	9,357	293	102,074		
Receivables-Accrued Interest	221	22	1	244		
Operations and Maintenance:						
Cash and Cash Equivalents	486	486		486		
Investments	1,171	1,171		1,171		
Receivables-Accrued Interest	3	3		3		
Improvement and Contingency Accounts:						
Cash and Cash Equivalents	5,063	439	149	5,651		
Investments	12,294	1,058	358	13,710		
Receivables-Accrued Interest	13	2	1	16		
Due from Other Funds	2,621			2,621		
Other Restricted Accounts:						
Cash and Cash Equivalents	87			87		
Investments	210			210		
Receivables-Accrued Interest	7			7		
Total Restricted Assets	182,939	17,531	924	201,394		
Capital Assets:						
Land	2,970	8,125	893	11,988		
Buildings	112,133	18,985	46	131,164		178
Improvements Other Than Buildings	145,825	1,639	3,025	150,489		194
Machinery and Equipment	10,282	759	3,421	14,464		102,194
Construction in Progress	86,651	10,916	499	98,066		
Total Capital Assets	357,861	40,424	7,887	406,171		102,566
Less: Accumulated Depreciation	118,883	8,667	2,613	130,163		60,251
Net Capital Assets	238,978	31,757	5,273	276,008		42,315
Unamortized Debt Expense	3,710	670		4,380		
Total Assets	\$ 441,456	\$ 51,244	\$ 12,130	\$ 504,830		\$ 113,575

The accompanying notes are an integral part of these financial statements.

— CITY OF SAN ANTONIO, TEXAS —

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2002**
(In Thousands)

LIABILITIES	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES	
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS	
Current Liabilities:						
Vouchers Payable	\$ 251	\$ 9	\$	\$ 994	\$	2,651
Accounts Payable-Other	5,129	76		6,844		41,161
Accrued Payroll	247	65		347		508
Accrued Leave Payable	140	20		127		287
Deferred Revenues	784			784		180
Accrued Interest						4
Due to Other Funds	2,173		4	2,173		9,521
Total Current Liabilities (Payable from Current Assets)	8,724	170	2,851	11,745		54,023
Current Liabilities (Payable from Restricted Assets)						
Vouchers Payable	1,688	1		1,708		
Accrued Bond and Certificate Interest	3,356	284	19	3,640		
Current Portion of Bonds and Certificates	6,185	1,140		7,325		
Due to Other Funds	478			478		
Lease Purchase						
Other Payables	649	445	133	1,094		
Total Current Liabilities (Payable from Restricted Assets)	12,356	1,870	152	14,378		370
Total Current Liabilities	21,080	2,040	3,003	26,123		54,393
Noncurrent Liabilities						
Revenue Bonds (Net of Current Portion)	224,150	24,845		248,995		
General Obligation Bonds and Certificates (Net of Current Portion)		12,630		12,630		
Unamortized Premium on New Series Bonds	436	481		917		
Less: Deferred Amount on Refunding		(528)		(528)		
Accrued Leave Payable	700	103	633	1,436		902
Lease Purchase			544	544		335
Due to Other Governmental Agencies						711
Other Payables						
Total Noncurrent Liabilities	225,286	37,531	1,053	263,870		1,948
Total Liabilities	246,366	39,571	5,233	291,170		56,341
NET ASSETS						
Invested in Capital Assets, net of related debt	140,596	6,072	4,993	152,261		41,610
Restricted:						
Debt Service	27,822	828		28,650		
Operations and Maintenance		1,660		1,660		
Renewal and Replacement		1,500		1,500		
Improvements and Contingency	20,267			20,267		
Unrestricted	\$ 6,405	\$ 1,013	\$ 1,904	\$ 9,322		15,624
Total Net Assets	\$ 195,090	\$ 11,673	\$ 6,897	\$ 213,660		\$ 57,234
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						(3,301)
Net assets of business-type activities.						210,359

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	NONMAJOR ENTERPRISE FUNDS-			INTERNAL SERVICE FUNDS	
	AIRPORT SYSTEM	PARKING FACILITIES	ENVIRONMENTAL SERVICES		TOTAL
<u>Operating Revenues</u>					
Charges for Services	\$ 40,119	\$ 7,978	\$ 46,717	\$ 94,814	\$ 132,983
Total Operating Revenues	<u>40,119</u>	<u>7,978</u>	<u>46,717</u>	<u>94,814</u>	<u>132,983</u>
<u>Operating Expenses</u>					
Personal Services	15,243	3,699	21,547	40,489	30,081
Contractual Services	4,796	1,175	20,256	26,227	69,015
Commodities	1,121	198	2,873	4,192	5,113
Materials					14,908
Other	928	510	1,745	3,183	26,347
Depreciation	7,376	591	290	8,257	15,397
Total Operating Expenses	<u>29,464</u>	<u>6,173</u>	<u>46,711</u>	<u>82,348</u>	<u>160,861</u>
Operating Income (Loss)	<u>10,655</u>	<u>1,805</u>	<u>6</u>	<u>12,466</u>	<u>(27,878)</u>
<u>Nonoperating Revenues (Expenses)</u>					
Interest and Other	2,889	390	86	3,365	1,395
Net (Decrease) in Fair Value of Investments	(42)	(25)	(7)	(74)	(79)
Other Nonoperating Revenue	7,398	17	195	7,610	3,444
Gain (Loss) on Sale of Fixed Assets	22	(19)	47	50	1,703
Interest and Debt Expense	(10,784)	(2,128)	(11)	(12,923)	(43)
Other Nonoperating Expense	(239)	(46)		(285)	
Total Nonoperating Revenues (Expenses)	<u>(756)</u>	<u>(1,811)</u>	<u>310</u>	<u>(2,257)</u>	<u>6,420</u>
Change in Net Assets Before Contributions and Transfers	<u>9,899</u>	<u>(6)</u>	<u>316</u>	<u>10,209</u>	<u>(21,458)</u>
Capital Contributions	5,040			5,040	481
<u>Transfers In (Out)</u>					
Transfers In		350		350	5,139
Transfers Out	(1,288)	(306)	(828)	(2,422)	(5,342)
Total Transfers	<u>(1,288)</u>	<u>44</u>	<u>(828)</u>	<u>(2,072)</u>	<u>(203)</u>
Change In Net Assets	13,651	38	(512)	13,177	(21,180)
Net Assets - Beginning	181,439	11,635	7,409		78,414
Net Assets - Ending	<u>\$ 195,090</u>	<u>\$ 11,673</u>	<u>\$ 6,897</u>	<u>\$ (3,301)</u>	<u>\$ 57,234</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					
Change in net assets of business-type activities.					\$ 9,876
The accompanying notes are an integral part of these financial statements.					

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES	
	NONMAJOR ENTERPRISE FUNDS			TOTALS	INTERNAL SERVICE FUNDS	
	AIRPORT SYSTEM	PARKING FACILITIES	ENVIRONMENTAL SERVICES			
<u>Cash Flows from Operating Activities</u>						
Cash Received from Customers	\$ 40,422	\$ 8,058	\$ 46,069	\$ 94,549	\$	\$ 133,167
Cash Payments to Suppliers for Goods and Services	(8,123)	(1,931)	(24,848)	(34,902)		(114,419)
Cash Payments to Employees for Service	(15,433)	(3,669)	(21,507)	(40,609)		(30,086)
Other Nonoperating Revenues	7,398	17	195	7,610		3,444
Net Cash Provided by (Used for) Operating Activities	24,264	2,475	(91)	26,648		(7,894)
<u>Cash Flows from Non-Capital Financing Activities</u>						
Transfers In from Other Funds	(1,440)	352		352		4,948
Transfers Out to Other Funds	(1,440)	(306)	(1,038)	(2,784)		(18,539)
Net Cash Provided by (Used for) Non-Capital Financing Activities		46	(1,038)	(2,432)		(13,591)
<u>Cash Flows from Capital and Related Financing Activities</u>						
Acquisitions and Construction of Capital Assets	(14,081)	(2,929)	(73)	(17,083)		(15,967)
Proceeds from Issuance of Long-Term Debt	130,857			130,857		(99)
Principal Payments on Long-Term Debt	(5,080)	(1,220)	(32)	(6,332)		(4)
Interest Paid on Long-Term Debt	(9,012)	(2,154)	(7)	(11,173)		(315)
Debt Issuance	(2,265)			(2,265)		(41)
Principal Payments on Notes						2,521
Interest Paid on Notes						(13,905)
Proceeds from Sale of Assets	22		177	199		
Net Cash Provided by (Used for) Capital and Related Financing Activities	100,441	(6,303)	65	94,203		
<u>Cash Flows from Investing Activities</u>						
Purchases of Investment Securities	(692,386)	(62,526)	(9,850)	(764,762)		(148,911)
Maturity of Investment Securities	590,621	61,022	9,808	661,451		158,788
Interest on Notes						17
Interest on Investments	2,816	483	111	3,410		1,668
Net Cash Provided by (Used for) Investing Activities	(98,949)	(1,021)	69	(99,901)		11,562
Net Increase (Decrease) in Cash and Cash Equivalents	24,316	(4,803)	(995)	18,518		(23,828)
Cash and Cash Equivalents, October 1	26,271	10,061	1,886	38,218		37,075
Cash and Cash Equivalents, September 30	\$ 50,587	\$ 5,258	\$ 891	\$ 56,736	\$	\$ 13,247

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES	
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS	
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities						
Operating Income (Loss)	\$ 10,655	\$ 1,805	\$ 6	\$ 12,466	\$	(27,878)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	7,376	591	290	8,257		15,397
Other Nonoperating Revenues	7,398	17	195	7,610		3,444
Changes in Assets and Liabilities:						
(Increase) In Other Accounts Receivable	(155)	(70)	(1)	(226)		(27)
Decrease In Allowance for Uncollectibles	46	70		116		166
(Increase) Decrease In Accrued Revenues	(36)	79	(647)	(604)		47
Decrease In Due from Other Funds						217
Decrease In Due from Other Gov't Agencies						77
(Increase) Decrease In Inventories	(9)	(31)	3	(37)		365
(Increase) In Prepaid Expenses	(29)			(29)		
Decrease In Deposits			13	13		78
Increase (Decrease) In Vouchers Payable	78	(21)	(92)	(35)		249
Increase (Decrease) In Other Payables	(1,318)	5	101	(1,212)		(45)
Increase In Due to Other Funds						21
Increase In Accrued Payroll	52	13	40	105		2
Increase (Decrease) In Accrued Leave Payable	(242)	17	1	(224)		(7)
Increase In Deferred Revenue	448			448		
Net Cash Provided by (Used for) Operating Activities	\$ 24,264	\$ 2,475	\$ (91)	\$ 26,648	\$	(7,894)
Noncash Investing, Capital and Financing Activities:						
Acquisitions and Construction of Capital Assets from Capital Contributions	\$ 5,040	\$	\$	\$ 5,040	\$	481
Net (Decrease) in Fair Value of Investments	\$ (42)	\$ (25)	\$ (7)	\$ (74)	\$	(79)

The accompanying notes are an integral part of these financial statements.

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF FIDUCIARY NET ASSETS/BALANCE SHEET
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2002

(In Thousands)

ASSETS	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Current Assets			
Cash and Cash Equivalents	\$ 71,199	\$ 11	\$ 7,446
Security Lending Collateral	125,235		
Investments, at fair value:		27	53
US Government and Agency Issues	147,167		
Corporate Bonds	140,838		
Preferred Common Stock	612,282		
Other	269,724		
Total Investments, at fair value	1,179,011	27	53
Receivables:			
Other Accounts	11,348		284
Accrued Interest	6,531		2
Accrued Revenue	566		
Prepayments	13		
Total Current Assets	1,384,903	38	7,785
Capital Assets			
Computer Equipment	76		
Buildings	556		
Total Capital Assets	632		
Less: Accumulated Depreciation	278		
Net Capital Assets	354		
Total Assets	1,385,257	38	7,785
LIABILITIES			
Vouchers Payable	1,332	3	1,448
Accounts Payable- Other	33,166		5,993
Accrued Payroll	38		
Due to Other Funds			344
Securities Lending	125,235		
Total Liabilities	159,771	3	7,785
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	\$ 1,225,486	\$ 35	

The accompanying notes are an integral part of these financial statements.

— CITY OF SAN ANTONIO, TEXAS —

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS:		
Contributions:		
Employer	\$ 58,969	\$
Employee	23,030	
Other Contributions		21
Total Contributions	81,999	21
Investment Earnings:		
Net (Decrease) in Fair Value of Investments	(154,836)	
Real Estate Income, net	180	
Interest and Dividends	33,530	1
Securities Lending	2,395	
Other Income	286	
Total Investment Earnings	(118,445)	1
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(5,036)	
Securities Lending Expenses:		
Borrower Rebates	(1,874)	
Lending Fees	(181)	
Net Investment Income	(125,536)	1
Total Additions	(43,537)	22
DEDUCTIONS:		
Benefits	69,706	
Refunds of Contributions	501	
Administrative Expense	1,060	12
Salaries, Wage and Employee Benefits	613	
Total Deductions	71,880	12
Change in Net Assets	(115,417)	10
Net Assets - Beginning of Year	1,340,903	25
Net Assets - End of Year	\$ 1,225,486	\$ 35

The accompanying notes are an integral part of these financial statements.

CITY OF SAN ANTONIO, TEXAS

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2002
(in Thousands)

ASSETS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Assets:				
Cash and Cash Equivalents	\$ 0	\$ 303,593	\$ 18,239	\$ 321,832
Investments	22,902	11,019	4,075	37,996
Receivables:				
Notes			15,411	15,411
Other Accounts	22,851	97,062	3,721	123,634
Accrued Interest	537	6,328	103	7,168
Inventories of Materials and Supplies	4,029	100,610		104,639
Due from Other Governmental Agencies			1,873	1,873
Prepaid Expenses	1,072	27,227	719	29,018
Total Current Assets	51,391	546,039	44,141	641,571
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	493	13,612		14,105
Investments	22,367	26,224		48,691
Receivables-Accrued Interest		655		655
Construction Accounts:				
Cash and Cash Equivalents	30,955			30,955
Investments	81,417			81,417
Repair and Replacement Account:				
Investments		588,557		588,557
Conservation Accounts:				
Investments	7,400			7,400
Other Restricted Accounts:				
Cash and Cash Equivalents		17,425	1,802	19,227
Investments	5,007	269,043		274,050
Receivables			5,716	5,716
Receivables-Accrued Interest		2,386		2,386
Total Restricted Assets	147,639	918,002	7,518	1,073,159
Capital Assets:				
Land	58,793	54,889	10,397	124,079
Infrastructure			36,564	36,564
Buildings			146,957	146,957
Utility Plant in Service	1,794,131	6,300,740		8,094,871
Machinery and Equipment	100,541		2,431	102,972
Construction in Progress	339,399	190,717	1,002	531,118
Utility Property Leased		18,785		18,785
Nuclear Fuel - Net		269,902		269,902
Held for Future Use		12,599		12,599
Total	2,292,864	6,847,633	197,151	9,337,647
Less: Accumulated Depreciation		643,936	10,187	654,123
Net Capital Assets	1,648,928	4,454,165	187,164	6,290,256
Prepaid Rent Long-Term-Leaseback				
Unamortized Debt Expense				
Total Assets	\$ 1,853,490	\$ 6,521,346	\$ 238,823	\$ 8,613,659

The accompanying notes are an integral part of these financial statements.

CITY OF SAN ANTONIO, TEXAS

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2002
(in Thousands)

LIABILITIES	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Liabilities:				
Accounts Payable and Other Current Liabilities	\$ 19,032	\$ 160,369	\$ 9,447	\$ 188,848
Sewer Collections Payable	190			190
Deferred Revenues			130	130
Notes Payable	516		3,626	4,142
Due to Other Governmental Agencies			2,546	2,546
Total Current Liabilities (Payable from Current Assets)	19,738	160,369	15,749	195,856
Current Liabilities (Payable from Restricted Assets):				
Accrued Bond and Certificate Interest	5,595			5,595
Current Portion of Bonds and Certificates	25,045	77,825		102,870
Other Payables	11,090		505	11,595
Total Current Liabilities (Payable from Restricted Assets)	41,730	77,825	505	120,060
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	703,410	2,512,035		3,215,445
Commercial Paper	185,000	350,000		535,000
Unamortized Premium	1,639	10,342		12,181
Less: Unamortized Discount on New Series Bonds	(15,542)			(15,542)
Deferred Amount on Refunding	(8,572)	(145,729)		(154,301)
Long-Term Lease/Notes Payable	2,930	656,135	81,210	740,275
Other Payables	1,729	235,598		243,404
Total Noncurrent Liabilities	870,594	3,618,581	87,287	4,576,462
Total Liabilities	932,062	3,856,775	103,541	4,892,378
NET ASSETS				
Invested in Capital Assets, net of related debt				
Restricted for Renewal and Replacement	866,324	1,690,076	94,590	2,650,990
Restricted for Debt Service	17,265	720,221	972	721,193
Restricted for Conservation	7,400		4,927	22,192
Unrestricted	30,439	254,274		7,400
Total Net Assets	\$ 921,428	\$ 2,664,571	\$ 34,793	\$ 319,506
Total	\$ 1,853,490	\$ 6,521,346	\$ 238,823	\$ 8,613,659

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(In Thousands)

	Program Revenues			Net (Expense) Revenue and Changes In Net Assets			
	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTALS
San Antonio Water System	\$ 134,067	\$ 134,705	\$ 6,950	\$ 7,588	\$	\$	\$ 7,588
City Public Service	1,223,532	1,200,846	73,096		50,410		50,410
Nonmajor Component Units	39,004	31,403	16,480			8,879	8,879
Total	<u>\$ 1,396,603</u>	<u>\$ 1,366,954</u>	<u>\$ 96,526</u>	<u>7,588</u>	<u>50,410</u>	<u>8,879</u>	<u>66,877</u>
General Revenues:							
Investment Earnings				5,300	51,925	423	57,648
(Loss) on Disposal of Capital Assets				(159)			(159)
Miscellaneous					7,062	6,782	13,844
Total General Revenues				<u>5,141</u>	<u>58,987</u>	<u>7,205</u>	<u>71,333</u>
Cumulative Effect of Change in Accounting Policy					139,074		139,074
Change in Net Assets				12,729	248,471	16,084	277,284
Net Assets - Beginning				908,699	2,416,100	119,198	3,443,997
Net Assets - Ending				<u>\$ 921,428</u>	<u>\$ 2,664,571</u>	<u>\$ 135,282</u>	<u>\$ 3,721,281</u>

**TABLE OF NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of San Antonio (City) have been prepared in conformance with generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

A. Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, "The Reporting Entity." The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials, and accordingly, the definition of the financial reporting entity is based on accountability.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable (blended), and (c) component units, which the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statement No. 14 outlined below, potential component units were evaluated for inclusion or exclusion in the reporting entity, and further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others only discretely presented.

The following criteria (as set forth in GASB Statement No. 14) were used in the evaluation of potential component units of the City:

- 1) Legally separate
- 2) Financial accountability
 - a) Appointment of a voting majority
 - b) Imposition of will
 - c) Financial benefit to or burden on the City
 - d) Fiscal dependency
- 3) The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete.
- 4) Service rendered by the potential component unit is provided entirely or almost entirely to the City.

The criteria outlined above were excerpted from GASB Statement No. 14. For a more detailed explanation of the criteria established by this Statement, we refer the reader to the Codification of Governmental Accounting and Financial Reporting Standards, as of June 30, 2002, published by GASB, Section 2600. Based upon the application of the criteria outlined above, the following is a brief review of component units included in the reporting entity:

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended with the Primary Government (the relationship among the following component units and the City meet the criteria, as set forth in GASB Statement No. 14, for inclusion in the Reporting Entity and is such that the financial statements are blended in with those of the City):

As set forth in GASB Statement No. 34, Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments, the City excludes fiduciary funds and component units that are fiduciary in nature from the government-wide financial statements. The City's component units that are fiduciary in nature are the San Antonio Fire and Police Pension Fund and the San Antonio Fire and Police Retiree Health Care Fund. These component units are presented in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

City of San Antonio Health Facilities Development Corporation

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of, the City as a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner, to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The HFDC is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

City of San Antonio Industrial Development Authority

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979, in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City as an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects which may further the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The IDA is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

San Antonio Fire and Police Pension Fund

The San Antonio Fire and Police Pension Fund (Pension Fund) is a Single Employer Defined Benefit Plan established in accordance with state law. The Pension Fund is administered by a nine member Board of Trustees, including three City Council Members. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state law. Benefit levels are also set by state law. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers upon retirement.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Fire and Police Retiree Health Care Fund

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide post employment healthcare benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these post employment healthcare benefits for eligible uniformed employees of the City. The Health Fund is administered by a nine member Board of trustees, including three City Council Members, and is funded primarily by contributions from the City and contributions made by retirees on behalf of their dependents. City and retiree contribution rates are established pursuant to Fire and Police collective bargaining agreements.

City of San Antonio Texas Municipal Facilities Corporation

The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in accordance with state law for the purposes of and to act on behalf of the City in acquisition, construction, equipping, financing, operation and maintenance of land and other municipal facilities for the City. The TMFC is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

Discretely Presented With the Primary Government (the relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statement No. 14, for inclusion in the reporting entity, and accordingly are included, however are such that the financial statements are discretely presented alongside, but not blended with those of the City):

San Antonio Water System

On February 13, 1992, the City Council determined it was in the best interest of the citizens of San Antonio and the customers served by the water and wastewater utilities to consolidate all water utilities, agencies, and activities into one institution. It was determined that the best mechanism for effecting the consolidation of all water systems, agencies, and activities into a single institution was through a refunding of all the then outstanding water and sewer bonds. The consolidation was consummated on May 19, 1992 with the creation of the San Antonio Water System (SAWS) which included the former City Water Board, Alamo Water Conservation and Re-use District, and the City's Sewer and Stormwater system.

Additionally, it was further determined by the City Council that the interests of the citizens and customers could best be served by placing authority for management and control of SAWS, as consolidated, in a Board of Trustees. This Board of Trustees includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. The rates for user charges and bond issuance authorizations are approved by the City Council.

City Public Service

City Public Service (CPS), a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS is governed by a Board of Trustees which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. The rates for user charges and bond issuance authorizations are approved by the City Council.

(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Development Agency

The San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the State of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate, for urban renewal, such areas, as it deems advisable, subject to approval by the City Council and the Federal Agency, which administers the overall program. SADA receives a majority of its operating funds from the City as pass-through grant funds and is governed by a seven member Board of Commissioners appointed by the City Council.

San Antonio Education Facilities Corporation

The City of San Antonio Higher Education Authority (SAHEA) was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and as its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to the San Antonio Education Facilities Corporation (SAEFC). The Act authorizes the SAEFC to issue revenue bonds for these purposes on behalf of the City but the bonds are not obligations of the City. SAEFC is governed by an eleven member Board of Directors appointed by the City Council for two-year terms.

Greater Kelly Development Authority

The Greater Kelly Development Corporation (GKDC) was established in 1996 as the local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base (Kelly). In November 1999, the City established the Greater Kelly Development Authority (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA will have the powers previously enjoyed by the GKDC while at the same time clarifying such powers and preserving the property tax exempt status of prior commercial tenants at Kelly. The GKDA is a special district and political subdivision of the State of Texas and was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The GKDA is governed by an eleven member Board of Directors, appointed by the City Council. The City Council also has the ability to remove appointed members of the organization's governing board at will. The GKDA is authorized to issue bonds to finance any project as permitted by Texas Law, but said bonds are not obligations of the City.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Housing Trust Foundation, Inc.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) is a non-profit corporation incorporated in 1990 under the laws of the State of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, specifically for providing housing for low and middle income families and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, a Private Purpose Trust Fund of the City. The Housing Trust Fund was established by the City for the purposes of providing additional and continuing housing opportunities for low and moderate income families; promoting public health, safety, convenience, and welfare; and revitalizing neighborhoods and the downtown area through appropriate housing activities. SAHTF is governed by an eleven member Board of Directors appointed by the City Council. SAHTF administers The San Antonio Housing Trust Finance Corporation.

San Antonio Local Development Company, Inc.

The San Antonio Local Development Company, Inc. (SALDC) is a non-profit corporation organized in 1978 under the laws of the State of Texas and the auspices of the City. SALDC was formed to participate in the Neighborhood Business Revitalization Program (NBRP), which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration, and the U.S. Department of Housing and Urban Development (HUD). SALDC is governed by a thirty-three member Board of Trustees, appointed by the City Council, and an eleven member Board of Directors appointed from the Board of Trustees. SALDC, under agreement with the City, administers and operates a revolving loan fund, NBRP that provides qualifying local businesses with loans under economic development programs administered by the SBA. SALDC also administers, by agreement with the City, a U.S. Department of Commerce Title IX Revolving Loan Fund, SBA MicroLoan Program and a HUD 108 Fund. Currently, SALDC has an outstanding note payable to HUD, which is guaranteed by the City.

Brooks Development Authority

The Brooks Development Authority (BDA) is a special district and political subdivision of the State of Texas. It was established on September 27, 2001, as a defense base development authority in accordance with state law for the purposes of and to act on behalf of the City in improving mission effectiveness, reduce the cost of providing quality installation support through improved capital asset management and promote economic development on Brooks Air Force Base and in the surrounding community. An eleven member Board of Directors appointed by the City Council governs the BDA for two-year terms and will oversee the Brooks Technology and Business Park in support of the Brooks City-Base Project.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office. The addresses are as follows:

Discretely Presented Component Units

San Antonio Water System P.O. Box 2449 San Antonio, Texas 78298 Contact Person: Alex Hinojosa Telephone No. (210) 704-7410	City Public Service P.O. Box 1771 San Antonio, Texas 78296-1771 Contact Person: Richard E. Williamson Telephone No. (210) 353-2397
San Antonio Development Agency 115 E. Travis, Suite 800 San Antonio, Texas 78205 Contact Person: Felix Lopez Telephone No. (210) 225-6833 ext. 203	San Antonio Education Facilities Corporation P.O. Box 830504 San Antonio, Texas 78283-0504 Contact Person: Ramiro Cavazos Telephone No. (210) 207-8040
Greater Kelly Development Authority 143 Billy Mitchell Blvd., Ste 6 San Antonio, Texas 78226 Contact Person: Bruce Miller Telephone No. (210) 362-7800	San Antonio Housing Trust Foundation, Inc. 2515 Blanco Rd. San Antonio, Texas 78212 Contact Person: John Kenny Telephone No. (210) 735-2772
San Antonio Local Development Company, Inc. P.O. Box 830505 San Antonio, Texas 78283-0505 Contact Person: Ramiro Cavazos Telephone No. (210) 207-8040	Brooks Development Authority 8030 Challenger Drive Brooks City-Base, Texas 78235 Contact Person: Virginia Cobarrubias Telephone No. (210) 536-6710
San Antonio Health Facilities Development Corporation P.O. Box 830504 San Antonio, Texas 78283-0504 Contact Person: Ramiro Cavazos Telephone No. (210) 207-8040	San Antonio Industrial Development Authority P.O. Box 830504 San Antonio, Texas 78283-0504 Contact Person: Ramiro Cavazos Telephone No. (210) 207-8040
San Antonio Fire and Police Retiree Health Care Fund 300 Convent Street, Suite 2500 San Antonio, Texas 78205 Contact Person: Paul Villarreal Telephone No. (210) 220-1385	San Antonio Fire and Police Pension Fund 3111 Roosevelt San Antonio, Texas 78210-2700 Contact Person: Warren Schott Telephone No. (210) 534-3262
San Antonio Texas Municipal Facilities Corporation P.O. Box 839966 San Antonio, Texas 78283 Contact Person: Milo Nitschke Telephone No. (210) 207-8620	

(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS and SAWS would be misleading. CPS and SAWS have been identified as major discretely presented component units both as they relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements. Discretely presented component units with different fiscal year ends from the City are the San Antonio Water System with a fiscal year end of December 31, and City Public Service with a fiscal year end of January 31. In 2001, the San Antonio Water System changed its fiscal year-end from May 31 to December 31. Please refer to Note 15 for more information.

Related Organizations

The City Council appoints the members to the Board of Directors for the San Antonio Housing Authority. However, the City's accountability for this entity does not extend beyond making appointments to the Board of Directors and the coordination and approval of strategic plans.

B. Basic Financial Statements – GASB Statement No. 34

Effective October 1, 2001, the City implemented the provisions of GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments". In conjunction with the implementation of GASB Statement No. 34, the City has also implemented GASB Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus, an amendment of GASB Statement No. 21 and No. 34", as well as a portion of GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Measurement and Recognition for Certain Liabilities and Expenditures in Governmental Funds". These statements comply with the requirements of the new reporting model. The significant changes in accounting due to the adoption of these standards include the addition of management's discussion and analysis, the presentation of net assets and the categorization thereof, the use of the accrual basis of accounting in the government-wide financial statements, the inclusion of certain required supplementary information, the elimination of the effects of internal service fund activities, reflecting depreciation on capital assets, the focus on major funds and the removal of non-matured arbitrage and compensated absence liabilities from the governmental funds.

Government-wide and Fund Financial Statements

Under the new governmental financial reporting model, the basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, the City has opted to early implement infrastructure reporting. The implementation requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of the capital assets, as well as the related depreciation, to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

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(amounts are expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements – GASB Statement No. 34 (Continued)

Government-wide Financial Statements (Continued)

The Statement of Net Assets reflects both short-term and long-term assets and liabilities. In the Government-wide Statement of Net Assets governmental activities are reported separately from business type activities. Governmental activities are supported by taxes and intergovernmental revenues whereas business type activities are normally supported by fees and charges for services Long-term assets, such as capital assets, infrastructure assets and long-term obligations are now reported with the assets of governmental activity. The components of net assets, previously shown as fund balances, are presented in three separate components; 1) Invested in Capital Assets, net of related debt, 2) Restricted, and 3) Unrestricted. Interfund receivables and payables between governmental and business type activities have been eliminated in the governmental-wide Statement of Net assets, which minimize the duplicating of assets and liabilities within the governmental and business type activities. Major component units are reported in the statement of net assets as well.

The Statement of Activities reflect both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales tax, intergovernmental revenues, etc.). Direct (gross) expenses of a given function or segment are offset by program revenues, and operating and capital grants. Program revenues must be directly associated with the function of business-type activity. The new presentation allows users to determine which functions are self-supporting, and which rely on the tax base in order to complete their mission. Internal service fund balances, whether positive or negative have been eliminated against the expenses and program revenues shown in the governmental activities of the Statement of Activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the internal service fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the internal service funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets. The only reconciling item is the internal service fund allocation.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: Governmental Funds, Proprietary Funds and Fiduciary Funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported in separately in the Fund Financial Statements. Nonmajor funds are independently presented in the combining statements.

The criteria used to determine if a governmental or enterprise funds should be reported as a major fund is as follows: The total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type (that is, total governmental or total enterprise funds), and total assets and liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

(amounts are expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

The following is a brief description of the major governmental funds that are each presented in a separate column in the fund financial statements:

The General Fund is always presented as a major fund.

The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs except that which is accounted for in proprietary type funds.

The General Obligation Bonds Capital Project Fund accounts for financial resources obtained through the issuance of general obligation bonds to be used for acquisition or construction of major capital facilities such as drainage, library improvements, excluding those financed by proprietary type funds and trust funds.

The following is a brief description of the major enterprise funds that are each presented in a separate column in the fund financial statements:

The Airport System accounts for the operation of the San Antonio International Airport and Stinson Municipal Airport. Financing for the Airport System operations is provided by user fees.

The Parking System accounts for the operations of the City's parking facilities. Financing for the Parking Facilities Operations is provided by user fees

1. Governmental Funds

General Fund - The General Fund of the City is the primary operating fund, which accounts for all financial resources of the general government except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than private-purpose trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

Permanent Funds - This fund is a new governmental fund type established by GASB Statement No. 34. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry.

2. Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

2. Proprietary Funds (Continued)

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in this fund.

3. Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Pension Trust, Retiree Health Care Trust, Private Purpose Trust Funds, and Agency Funds. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The statement of net assets and the statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year they are levied. Other taxes and fees are recognized as revenue in the year they are earned. Revenue from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied.

Program Revenues are presented in the Government-wide Statement of Activities. The City reports program revenues into three categories: 1) Charges for services, 2) Operating grants and contributions and 3) Capital grants and contributions. (Further descriptions of these three categories follow.) They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by transactions with outside parties who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those funds to specific programs. Investment earnings that are legally restricted to specific programs are also reported as program revenues.

1) **Charges** for services are revenues that are generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, golf course fees, and food establishment licenses. Fines and forfeitures are also reported under charges for services.

2) **Operating** grants and contributions are those revenues that are restricted in the way they may be spent - either for operations of a particular program or to purchase a capital asset for a particular program.

3) **Capital** grants and contributions are also restricted revenues; the funds may only be spent to purchase capital assets for specified programs.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

All governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. Revenues are recognized in the accounting period in which they become available and measurable. For this purpose, the City considers revenues, other than grants, to be available if the revenues are collected within sixty days after year-end. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider are met. Grant funds received in advance and delinquent property taxes are recorded as deferred revenue until earned and available. Gross receipts and sales taxes are considered available when in the hands of intermediary collecting governments and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain. Expenditures are recognized in the accounting period in which the fund liability is incurred. However, compensated absences, debt service expenditures, claims and judgments and arbitrage rebate are recorded only when the liability is matured.

The reported fund balance (net current assets) for each fund is considered a measure of "current financial resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "current financial resources" during the period.

Special reporting treatments are applied to governmental fund inventories and prepaid expenditures to indicate that they do not represent "current financial resources", since they do not represent net current assets. Such amounts are generally offset by fund balance reserve accounts.

Proprietary, Pension Trust, Private Purpose Trust, and Retiree Health Care Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred. These funds are accounted for on a cost of services or "economic resources" measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. The reported Proprietary Fund net assets is segregated into three components: 1) invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

Proprietary funds report both operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses and Changes in Fund Net Assets. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and street lot fees are operating revenues of the Parking Fund. This definition is consistent with GASB Statement No. 9 which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered nonoperating.

The City's enterprise funds, pension trust, private purpose trust and retiree health care funds and business-type activities, as well as its discretely presented component units apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The City and its discretely presented major proprietary component units, CPS and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

CPS' operating revenue includes receipts from energy sales and miscellaneous revenue related to the electric and gas systems operations. This includes late payment fees, rental income, jobbing and contract work, ancillary services, and merchandise sales. Operating expenses include those expenses that result from the ongoing operations of the electric and gas systems. SAWS' principal operating revenues are charges to customers for water and wastewater services. Operating expenses include the cost of service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues consist primarily of investment income, including the changes in fair value of investments. The amortization of net gains from the lease-leaseback and the sale of water rights in prior years are also included. Some miscellaneous income from renting general property and miscellaneous service is also recorded in nonoperating when it's not directly identified with the electric, gas, water and wastewater systems.

CPS changed its policy for accounting for assets accumulated to pay liabilities for the employee health and welfare benefits. As a result of this change in policy, a cumulative effect of adjustment in the amount of \$139,074 was recorded in fund net assets.

E. Future GASB Implementations

GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14", provides criteria for determining whether certain organizations might be included in the financial reporting entity as component units based on the nature and significance of their relationship with the City, is effective for fiscal years beginning after June 15, 2003. The City has not fully determined the effect that implementation of Statement No. 39 will have on the City's financial statements.

With regard to GASB Statement No. 38, the City is reviewing the disclosure requirements regarding disaggregation of receivable and payable balances. These disclosure requirements will be implemented in fiscal year 2003. All other components of GASB Statement No. 38 have been implemented in fiscal year 2002.

F. Cash, Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's Investment Policy. City cash is required to be deposited in FDIC-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized which enables the City to have one central depository. Investments are pooled into two primary categories, operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. As of September 30, 2002, the City's investment portfolio did not contain any derivative products nor is it leveraged in any way, except as noted in the Fire and Police Pension Fund. For a listing of authorized investments, see Note 3.

The City, CPS and SAWS account for and report investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The Fire and Police Pension Trust and the Fire and Police Health Care Fund report investments at fair value in accordance with GASB Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The City's policy with respect to money market investments, which had a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, SAWS and CPS consider all highly liquid investments with an original maturity of approximately ninety days or less to be cash equivalents.

(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories and Prepaid Items

Inventories of materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in, first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for inventories. Under the consumption method, inventory acquisitions are recorded in inventory accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

Prepaid items are goods and services that are paid for in advance. These payments reflect costs applicable to future accounting periods, and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

H. Capital Assets and Depreciation

1. Primary Government (City)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported on the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. With the implementation of GASB Statement No. 34, the City has established capitalization thresholds for infrastructure and machinery and equipment which includes computer equipment. Retroactive reporting of all infrastructure assets is reported in the financial statements and the estimated useful lives and capitalization thresholds applied are as follows:

Assets	Useful Life		Capitalization Threshold
	Years		
Buildings	15-40		\$100
Improvements (Other than buildings)	20-40		\$100
Machinery and Equipment	5-15		\$5
Furniture and Office Equipment	5-10		\$5
Infrastructure	15-100		\$250

2. City Public Service (CPS)

The CPS utility plant is stated at the cost of construction, including costs of contracted services, direct equipment material and labor, indirect costs, including general engineering, labor, equipment, and material overhead, and an allowance for funds used during construction (AFUDC). CPS computes AFUDC using rates which approximate the cost of borrowed funds, or the short-term investment rate for other funds used for construction. AFUDC is applied to projects estimated to cost in excess of \$250 and require thirty days or more to complete.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

2. City Public Service (CPS) (Continued)

In 2001 and prior years, CPS computed depreciation using the straight-line method over the estimated service lives of the depreciable property using class lives for certain asset categories and specifically assigned lives for certain assets. In 2002, CPS computed depreciation using the straight-line method over the estimated service lives of the depreciable property using specifically identified service lives for each asset type. Total depreciation and depletion, as a percentage of total depreciable assets net of nuclear fuel, was 2.99 percent in 2002.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS' share of the STP generation that is available for sale to CPS customers. The charge is included in fuel expense monthly. For further discussion regarding the STP, see Note 10.

3. San Antonio Water System (SAWS)

The SAWS' capital assets in service are recorded on the basis of cost. Assets acquired through capital leases are recorded on the cost basis and are included in utility plant service. Assets acquired through contributions, such as those from land developers, are capitalized and recorded in the plant accounts at estimated fair value at date of donation. SAWS capitalizes certain interest costs on revenue bonds and commercial paper associated with newly constructed utility plant additions. Maintenance, repairs, and minor renewals are charged to operating expense, while major plant replacements are capitalized.

SAWS' capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully amortize the costs of the asset group over their estimated average useful life. The following estimated average useful lives are used in providing for depreciation of the SAWS' capital assets:

Structures and improvements	50 years
Pumping and purification equipment	10 - 50 years
Distribution and transmission system	25 - 50 years
Collection system	50 years
Treatment facilities	25 years
Equipment and machinery	5 - 20 years
Furniture and fixtures	20 - 50 years
Computer equipment	5 years
Software	3 years

I. General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, interest earned within the Debt Service Fund, and transfers from other funds.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

In the governmental fund financial statements, the City accrues annual leave and associated employee related costs when matured (payable from available resources) for City non-uniformed employees and uniformed fire and police employees. In addition, the City accrues the matured portion of the City's uniformed fire and police employees accrued sick leave pay, holiday pay and bonus pay. Compensatory time is also accrued for the matured portion of the City's non-uniformed non-exempt employees as well as uniformed police officers.

For governmental fund types, the matured current portion of the liability resulting from the accrual of these compensated absences is recorded in the respective governmental fund and reported in the fund financial statements, while the entire vested liability is reported in the government-wide financials. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary fund.

K. Insurance

Activity for the City's self-insurance programs is recorded in the Internal Service Funds. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, extended sick leave, and employee wellness are included.

The City is insured for property and casualty liability. As of the fiscal year end, Allianz Insurance Company insured the City's property, while the North River Insurance Company of New Jersey provided excess liability coverage. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made, and claims incurred but not reported prior to the end of the fiscal year.

The City also provides employee health, workers' compensation, and unemployment benefits under its self-insured programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims for employees that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third party administrators. In addition, the City has excess workers' compensation coverage through the North River Insurance Company as of September 30, 2002. The City records all workers' compensation loss contingencies, including claims incurred but not reported.

Employee health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits. Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better, where A- denotes "Excellent". A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 12.

L. Fund Equity

Reservations of fund equity represent amounts that are not appropriate or are legally segregated for a specific purpose. Designations of fund equity represent tentative plans identified by management and are subject to change. Designations are utilized in the City's governmental funds for amounts which have been designated for subsequent year's expenditures and amounts allocated to making future improvements and replacements. Such designations will be reflected on the fund financial statements.

(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Revenue Recognition

Governmental fund types record revenues on the modified accrual basis of accounting and are reported as such in the fund financial statements. That is, revenues are recorded when they are both measurable and available to finance current operations or when they are considered susceptible to accrual. Revenues from property taxes, sales taxes, municipal court fines and fees, licenses, interest revenue and charges for services are recorded on the modified accrual basis of accounting, therefore, are considered susceptible to accrual. The City's availability period is no more than 60 days beyond the end of the fiscal year. When collections are delayed beyond the normal time of receipt due to unusual circumstances, the amounts involved are still recognized as revenues of the current period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider have been met. Proprietary-type funds record revenues when earned. In the government-wide financial statements, all revenues are recorded when earned.

CPS revenues are recorded when billed. Customers' meters are read and bills are rendered monthly. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned under the accrual basis.

N. Allocation of Indirect Expenses

The City recovers indirect costs in the General Fund through the application of departmental indirect cost rates. These rates are developed and documented in the City's departmental indirect cost rate plan. In this plan, each department is classified by function. Indirect costs are budgeted by department and are used as a basis for the City's actual indirect cost allocation. Base rates are then applied to actual indirect costs recovered and indirect costs are reclassified to reduce general government expenditures. For fiscal year 2002, general government expenditures were reduced by \$6,511, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of \$4,037 and \$2,474, respectively.

O. Nuclear Decommissioning

CPS, together with the other owners of the STP, filed with the Nuclear Regulatory Commission (NRC) a certificate of financial assurance for the decommissioning of the nuclear plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1995, the owners conducted a review of decommissioning costs. The results estimated CPS' share of decommissioning costs at approximately \$270,000 in 1994 dollars, which also exceeded NRC minimum requirements. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately \$311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2002, CPS had accumulated approximately \$145,900 of decommissioning funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amount of \$61,400 at December 31, 2001. Based upon the 1998 decommissioning study, the annual level funding into the trust of \$15,900 for 2002, was expensed by CPS.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts and debt issuance costs are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the funds in which proceeds of debt issuances are recorded.

Q. Elimination of Internal Activity

Eliminations of internal activity, particularly those related to internal service fund transactions, are needed to make the transition from governmental funds to government-wide activities. The overriding objective in "eliminating the effects of internal service fund activity" is to adjust the internal charges to cause a break-even result. Eliminating the "effect" of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. Net income derived from internal service fund activity would cause a pro rata reduction in the charges made to the participating funds/functions. Conversely, an internal service fund net loss would require a pro rata increase in the amounts charged to the participating funds/functions. Therefore, eliminations made to the statement of activities removes the "doubling up" effect of internal service fund activity. The residual internal balances between the governmental and business-type activities are reported in the statement of net assets and the internal balance amounts that exist within the governmental funds or within business-type funds are eliminated. The City reports internal service fund balances in both governmental and business-type activities based on the pro-rata share of the amounts charged to the participating funds/functions.

The City has three internal service funds: Other Internal Services, Information Technology Services, and Self-Insurance Funds. Other Internal Services and Information Technology Services charges users fees for requested goods or services. Building maintenance charges, a component of the Other Internal Services Fund, are based on the space occupied by departments. Through the tracking of these charges to the applicable departments, the net income or loss will be allocated back to the user department based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year. The net income or loss generated by the Self-Insurance Funds is allocated back based on the same allocation by which the revenues are received.

R. Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditure is restricted to certain allowable costs. In situations where both restricted and unrestricted net assets are expended to cover allowable expenses, the City will first expend the restricted net assets and cover additional costs with unrestricted net assets. The City reserves the right to selectively defer the use of restricted assets.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Change in Fiscal Year

On April 3, 2001, the SAWS' Board of Trustees approved the changing of the fiscal year from a year-end of May 31st to December 31st. Management has taken all necessary actions to effect the change, including the preparation of their Comprehensive Annual Financial Report for the seven-month period ending December 31, 2001, as well as notification to bondholders, nationally recognized municipal security information repositories, and others, of the change in the fiscal year. The change in fiscal year to calendar year was approved to increase the effectiveness and efficiency for the implementation of capital improvement programs, rate studies and other financial planning.

T. Other Budget Disclosures

Excess of expenditures, transfers and encumbrances over appropriations occurred as follows:

Excess of Expenditures, Transfers and Encumbrances Over Appropriations				
Fund/Expenditures	Appropriations	Expenditures, Transfers and Encumbrances	Excess of Expenditures, Transfers and Expenditures over Appropriations	
General Fund:				
Health Services	\$ 13,717	\$ 14,076	\$	359
Sanitation	2,567	2,663		96
Transfers	74,881	76,102		1,221
Special Revenue Funds:				
Hotel Motel Capital				
Improvements	\$ 9,977	\$ 20,139	\$	10,162
Emergency Medical Services	37,821	38,311		490
Debt Service Fund	\$ 115,968	\$ 117,044	\$	1,076
Permanent Funds:				
San Jose Burial Park	\$ 412	\$ 684	\$	272

The excess expenditures over appropriations were fully offset by excess actual revenues or fund balances. No deficit fund balances resulted from these excesses.

2. PROPERTY TAXES

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1st, and become delinquent the following February 1st. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. The portion of property tax receivable, net of allowances for uncollectible amounts, that is considered available, is offset by deferred revenues in the governmental fund financial statements. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable valuation. The tax rate approved by City ordinance for the year ended September 30, 2002 was \$0.57854 per \$100 taxable valuation, which means that the City has a tax margin of \$1,921.46 per \$100 taxable valuation and could raise an additional \$760,660 per year based on the net taxable valuation of \$39,587,584 before the limit is reached.

(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

City monies are deposited in demand accounts at the City's approved depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata share of highly liquid investments, including U.S. Treasury securities, U.S. Government Agency securities, and Repurchase Agreements with original maturities of ninety days or less, summarized by fund type and included in the combined statement of net assets as Cash and Cash Equivalents. Overdrafts which result from a fund overdrawing its share of pooled cash are reported as inter-fund payables by the overdrawing fund and as inter-fund receivables of the contributing funds.

Collateral is required for demand deposits and certificates of deposit at 100% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Collateral pledged for demand deposits and certificates of deposit is required to be held in the City's name by the trust or safekeeping department of a bank other than the pledging bank.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a fair value adequate to cover the deposits and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository or federal depository insurance.

The City entered into Repurchase Agreements in connection with the investment of certain bond proceeds. Although these Repurchase Agreements are considered securities for purposes of credit risk classification, due to their 100% overnight liquidity, they are included with Cash and Cash Equivalents in the combined statement of net assets.

The investment policy of the City is governed by state statute and by its own written investment policy. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. Government Agency securities with original maturities of more than ninety days. Each fund's pro rata share of these longer-term investments is combined with similar non-pooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. Government Agency securities, and are reported as investments in the combined statement of net assets, as of September 30, 2002.

The City accounts for and reports investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". The City's policy with respect to money market investments which have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. The decrease in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was \$497 for the year ended September 30, 2002. The City does not participate in external investment pools.

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund Board of Trustees. Investments of the Pension Fund are reported at fair value and include: corporate bonds; preferred stock; U.S. Treasury securities; U.S. Government Agency securities; notes, mortgages and contracts; and real estate. Equity and fixed income securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Gains and losses on sales and exchange of securities are recognized on the trade date. Investments that do not have an established fair value are reported at estimated fair value. No investments in any one organization (other than those issued by the U.S. Government) represent five percent or more in plan assets.

(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102% and 105% for domestic and international securities, respectively, of the loaned securities be maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities and irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote.

As of September 30, 2002, the Pension Fund had lending arrangements outstanding with a total fair value of \$121,680 which were fully collateralized with cash and securities. Related to these loaned securities, cash collateral of \$125,235 is recorded in the accompanying statements. Net income for the year ended September 30, 2002 under the securities lending arrangement was \$339.

The Pension Fund has only limited involvement with derivative and other structured financial instruments and does not use them for trading purposes. The Pension Fund's investment philosophy in bond portfolios has centered on using derivatives and other structured financial instruments only when comparable cash alternatives are not available. Specifically, the Pension Fund has used the following basic guidelines when entering into such transactions: (1) small allocations, (2) no use of leverage, (3) price floors, (4) short maturities to mitigate potential problems with liquidity and (5) attention to credit risk of the issuer. The fair value of structured financial instruments held for the Pension Fund during fiscal year ended September 30, 2002 was approximately \$102,364.

The Pension Fund periodically participates in options and futures in order to hedge the value of a portion of its investments. Financial options and futures are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. Total exposure on these options and futures of approximately \$43,995 is included in net appreciation (depreciation) in fair value of investments at September 30, 2002.

The Fire and Police Retiree Health Care Fund Board of Trustees administers investments of the Fire and Police Retiree Health Care Fund, a blended component unit. Investments are reported at fair value and short-term investments are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established fair value are reported at estimated fair value. All investment income, including changes in fair value of investments, is reported as additions in the statement of changes in fiduciary net assets. No investments in any one organization (other than those issued by the U.S. Government) represent five percent or more in plan assets.

The investment policies of SAWS and CPS, the City's major discretely presented component units, are governed by state statute, local ordinance, and their own respective written investment policies. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements.

SAWS is permitted by City Ordinance No. 75686 to invest in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, including obligations for which the principal and interest are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or as otherwise permitted by state law. SAWS general depository agreement does not require SAWS to maintain an average monthly balance.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Under the provisions of GASB Statement No. 31, SAWS reports money market investments with a remaining maturity at time of purchase of one year or less at amortized cost, which approximates fair value. As of December 31, 2001, SAWS reports money market investments with a remaining maturity at time of purchase of greater than one year at amortized cost. The difference between the reported amount and fair value was \$134 and was deemed immaterial; therefore an unrealized loss was not reported.

CPS cash deposits at January 31, 2002 were entirely insured or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government or Government Agency or U.S. Government guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS' name.

CPS investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. Fair value is determined by using generally accepted financial reporting services and publications and approved dealers and brokers as necessary. The specific identification method is used to determine costs in computing gain or loss on sales of securities.

CPS allowable investments, excluding the Decommissioning Trust and the Employees Health and Welfare Plans, as defined by CPS Board Resolution and Policy, Bond Ordinances, Tax-Exempt Commercial Paper Ordinance, and State Law include U.S. Government or Government Agency or U.S. Government guaranteed obligations, collateralized mortgage obligations issued by the U.S., fully secured certificates of deposit issued by a state, national bank, savings bank domiciled in the State of Texas, direct repurchase agreements, reverse repurchase agreements, defined bankers acceptances and commercial paper, no-load money market mutual funds, and other types of specific secured or guaranteed investments. CPS reports all South Texas Nuclear Project (STP) decommissioning master trust investments and employee health and welfare investments at fair value.

CPS' investments in the STP decommissioning master trust are held by an independent trustee. Trust investments are limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement, and state law. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded.

Investments in the employee health and welfare plans are held by an independent trustee. These investments are limited to those authorized by the plans Administrative Committees, the Trust Agreements, and state law. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded. These investment policies follow the "prudent man" concept.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Combined cash and cash equivalents and investments are presented below as of year end for the City, and its significant discretely presented Component Units, SAWS and CPS. The information is provided to give an indication of the proportionate amount of cash and investments held by each respective entity.

Combined Cash, Cash Equivalents, and Investments			
	City ¹	SAWS ²	CPS ³
Cash and Cash Equivalents	\$ 292,109	\$ 31,448	\$ 334,630
Security Lending Collateral	125,235		
Cash and Cash Equivalents	1,854,590	166,488	1,227,161
Investments			
Less: Investments with original maturities of less than ninety days included in cash equivalents	(211,020)	(27,395)	(332,218)
Total	\$ 2,060,914	\$ 170,541	\$ 1,229,573

¹ The following amounts were held by the City in a fiduciary capacity and are excluded from the primary government statement of net assets: Cash and Cash Equivalents of \$78,656; Security Lending Collateral-Cash and Cash Equivalents of \$125,235; Investments of \$1,170,091.

² For the seven months ended December 31, 2001

³ For the fiscal year ended January 31, 2002

Totals from Statement of Net Assets and Fiduciary Fund Statements			
	City ¹	SAWS ²	CPS ³
Cash and Cash Equivalents	\$ 239,880	\$ 0	\$ 303,593
Security Lending Collateral			
Cash and Cash Equivalents	125,235		
Investments	1,497,978	22,902	11,019
Restricted Cash and Cash Equivalents	52,229	31,448	31,037
Restricted Investments	145,592	116,191	883,924
Total Cash, Cash Equivalents and Investments	\$ 2,060,914	\$ 170,541	\$ 1,229,573

¹ The following amounts were held by the City in a fiduciary capacity and are excluded from the primary government statement of net assets: Cash and Cash Equivalents of \$78,656; Security Lending Collateral-Cash and Cash Equivalents of \$125,235; Investments of \$1,170,091.

² For the seven months ended December 31, 2001

³ For the fiscal year ended January 31, 2002

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The composition of Cash and Cash Equivalents included in the financial statements for the City and its major discretely presented Component Units as of the respective year-ends is presented below.

	City	SAWS ¹	CPS ²
Deposits with Financial Institutions	\$ 9,643	\$ 63,527	\$ 2,305
Less: Deposits with Original Maturities of Greater than Ninety Days		(59,500)	
Investments with Original Maturities of Less than Ninety Days	211,020	27,395	332,218
Cash with Pension/Retiree Healthcare Fiscal Agents	71,216		
Cash with Other Financial Agents	31		
Petty Cash Funds	199	26	107
Total Cash and Cash Equivalents	\$ 292,109	\$ 31,448	\$ 334,630

¹For the seven months ended December 31, 2001

²For the fiscal year ended January 31, 2002

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Healthcare Fund of the City of San Antonio have been approved by the Funds' Board of Directors and are invested as authorized by Texas State Statutes.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits with financial institutions are classified into three categories of custodial credit risk based upon the following:

Category	Description
1	Deposits insured by the FDIC or collateralized with securities held by the City or the City's agent in the City's name.
2	Deposits collateralized by securities held by the pledging bank's agent in the City's name.
3	Deposits uncollateralized which include deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the City's name.

Accordingly, deposits of the City, SAWS and CPS are categorized by custodial credit risk as follows:

Units	Carrying Amount	Bank Balance	Category
			1 2 3
City Deposits:			
With Financial Institutions	\$ 9,643	\$ 28,809	\$ 0 \$ 0 \$ 0
Deposits with Agents	71,247	71,247	71,247
SAWS Deposits:			
Demand and Savings Accounts	4,027	7,329	7,329
Certificates of Deposits	59,500	59,500	59,500
CPS Deposits:			
With Financial Institutions	2,305	10,797	10,797

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Health Care Fund of the City of San Antonio are classified as Category 1. The Fire and Police Pension Fund also had securities lending collateral - cash and cash equivalents in the amount of \$125,235 which is not categorized for custodial credit risk as it had been invested in a securities lending collateral investment pool.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments are classified into three categories of custodial credit risk based upon the following:

Category	Description
1	Includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name.
2	Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
3	Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

Accordingly, the investments of the City, SAWS, and CPS are categorized below to give an indication of the level of custodial credit risk assumed:

Total Investments By Category					Fair Value	
	1	2	3	Carrying Amount		
City:						
Corporate Bonds	\$ 140,838	\$ 0	\$ 0	\$ 140,838	\$ 140,838	
Preferred Stock	582			582	582	
Common Stock	611,700			611,700	611,700	
U.S. Treasury & Government Agency Securities	733,561			733,561	734,854	
Repurchase Agreements		16,999		16,999	16,999	
Total Categorized Investments	1,486,681	16,999	0	1,503,680	1,504,973	
Investments not Categorized:						
Money Market Mutual Fund				91,189	91,189	
Notes, Mortgages, Contracts				113,639	113,639	
Real Estate Investments				56,543	56,543	
Venture Capital Partnerships and Other Alternative Investments				89,539	89,539	
Total City	\$ 1,486,681	\$ 16,999	\$ 0	\$ 1,584,907	\$ 1,555,883	
SAWS:						
First Union Bank Held in Escrow	\$ 0	\$ 24,747	\$ 0	\$ 24,747	\$ 24,904	
U.S. Treasury & Government Agency Securities	82,241			82,241	82,569	
Total SAWS	\$ 82,241	\$ 24,747	\$ 0	\$ 106,988	\$ 107,473	
CPS:						
U.S. Treasury & Government Agency Securities	\$ 948,098	\$ 0	\$ 0	\$ 948,098	\$ 950,932	
South Texas Nuclear Project Decommissioning Master Trust:						
U.S. Treasury & Government Agency Securities	144,222			144,222	144,222	
Employee Health and Welfare:						
Corporate bonds	18,498			18,498	18,498	
Common stock	67,668			67,668	67,668	
U.S. Treasury & Government Agency Securities	28,113			28,113	28,113	
Global Bonds	5,980			5,980	5,980	
Foreign equities	5,127			5,127	5,127	
Total Health and Welfare Investments	125,386			125,386	125,386	
Investments not Categorized:						
Money Market Mutual Fund	125,386			9,455	9,455	
Total Employee Health and Welfare Total CPS	\$ 1,217,706	\$ 0	\$ 0	\$ 1,227,161	\$ 1,229,955	

(amounts are expressed in thousands)

4. CAPITAL ASSETS

Capital asset activity for governmental activities, to include Internal Services Funds, for the year ended September 30, 2002 was as follows:

Capital Assets - Governmental Activities				
Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets:				
Land	\$ 1,206,632	\$ 8,759	\$ 0	\$ 1,215,391
Construction in Progress	440,562	84,336		524,898
Total Non-Depreciable Assets	1,647,194	93,095		1,740,289
Depreciable Assets				
Buildings	367,827			367,827
Improvements	59,712	356	(479)	59,589
Infrastructure	1,939,300			1,939,300
Machinery and Equipment	262,713	40,723	(152,743)	150,693
Total Depreciable Assets	2,629,552	41,079	(153,222)	2,517,409
Accumulated Depreciation				
Buildings	(124,370)	(9,991)		(134,361)
Improvements	(31,599)	(1,243)		(32,842)
Infrastructure	(1,023,913)	(56,631)		(1,080,544)
Machinery and Equipment	(58,367)	(24,836)	11,409	(71,794)
Total Accumulated Depreciation	(1,238,249)	(92,701)	11,409	(1,319,541)
Total Depreciable Assets, net	1,391,303	(51,622)	(141,813)	1,197,868
Total Capital Assets, net¹	\$ 3,038,497	\$ 41,473	\$ (141,813)	\$ 2,938,157
Depreciation expense was charged to governmental functions as follows:				
General Government			\$ 7,193	
Public Safety			11,393	
Public Works			57,727	
Health Services			125	
Welfare			102	
Culture and Recreation			371	
Convention and Tourism			18	
Urban Redevelopment and Housing			375	
Depreciation on capital assets held by the City's internal service funds is charged to various functions based on asset usage			15,397	
Total Depreciation Expense for Governmental Activities			\$ 92,701	

¹ The capital assets of internal service funds are included in governmental activities. In fiscal year 2002, internal service fund capital assets increased by \$18,206, decreased by \$13,985, resulting in an ending balance of \$102,566. Depreciation expense of \$15,397 resulted in an ending accumulated depreciation balance of \$60,251, to arrive at a net book value of \$42,315.

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(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended September 30, 2002 was as follows:

Capital Assets - Business-type Activities				
	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land	\$ 2,970	\$ 0	\$ 0	\$ 2,970
Aviation Fund	8,125			8,125
Parking Fund	893			893
Non-Major Funds	11,988			11,988
Total	25,976	0	0	25,976
Construction in Progress				
Aviation Fund	67,504	19,147		86,651
Parking Fund	8,557	2,359		10,916
Non-Major Funds	410	89		499
Total	76,471	21,595		98,066
Total Non-Depreciable Assets	88,459	21,595		110,054
Depreciable Assets				
Buildings	112,133			112,133
Aviation Fund	18,985			18,985
Parking Fund	46			46
Non-Major Funds	131,164			131,164
Total	362,328			362,328
Improvements				
Aviation Fund	145,825			145,825
Parking Fund	1,639			1,639
Non-Major Funds	3,025			3,025
Total	150,489			150,489
Machinery and Equipment				
Aviation Fund	9,674	1,079	(471)	10,282
Parking Fund	810	33	(84)	759
Non-Major Funds	3,643	742	(962)	3,423
Total	14,127	1,854	(1,517)	14,464
Total Depreciable Assets	295,780	1,854	(1,517)	296,117
Accumulated Depreciation				
Buildings	(45,874)	(2,636)		(48,510)
Aviation Fund	(6,972)	(482)		(7,454)
Parking Fund	(226)	(1)		(227)
Non-Major Funds	(53,072)	(3,119)		(56,191)
Total	(105,724)	(6,238)		(111,962)
Improvements				
Aviation Fund	(59,416)	(3,901)		(63,317)
Parking Fund	(428)	(75)		(503)
Non-Major Funds	(20)	(104)		(124)
Total	(60,044)	(4,080)		(64,124)
Machinery and Equipment				
Aviation Fund	(6,536)	(839)	319	(7,056)
Parking Fund	(728)	(34)	52	(710)
Non-Major Funds	(2,877)	(184)	799	(2,262)
Total	(10,141)	(1,057)	1,170	(10,028)
Total Accumulated Depreciation	(123,077)	(8,286)	1,170	(130,193)
Total Depreciable Assets, net	172,703	(6,402)	(347)	165,954
Total Capital Assets, net	\$ 261,162	\$ 15,193	\$ (347)	\$ 276,008

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(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

CPS and SAWS capitalize interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62 issued by the Financial Accounting Standards Board. CPS and SAWS capitalized construction period interest in the amount of \$7,062 and \$4,169, respectively. Capital asset activity for CPS and SAWS was as follows:

Capital Assets - City Public Service				
	Beginning Balance	Increases	Decreases	Ending Balance
City Public Service¹				
Non-Depreciable Assets				
Land	\$ 53,336	\$ 1,558	\$ (5)	\$ 54,889
Land held for future use	12,599			12,599
Construction in Progress	144,510	274,283	(228,076)	190,717
Total Non-Depreciable Assets	210,445	275,841	(228,081)	258,205
Depreciable Capital Assets				
Utility Plant in Service	6,098,970	228,479	(26,709)	6,300,740
Utility Property Leased	18,785			18,785
Nuclear Fuel	258,326	11,666		269,992
Total Depreciable Assets	6,375,991	240,145	(26,709)	6,589,427
Accumulated Depreciation				
Utility Plant in Service	(1,996,773)	(188,999)	31,442	(2,154,330)
Utility Property Leased	(138)	(66)		(204)
Nuclear Fuel	(223,816)	(15,118)		(238,934)
Total Accumulated Depreciation	(2,220,727)	(204,183)	31,442	(2,393,468)
Total Depreciable Assets, net	4,155,264	35,962	4,733	4,195,959
Total Capital Assets, net	\$ 4,365,709	\$ 311,803	\$ (223,348)	\$ 4,454,164

Capital Assets - San Antonio Water System				
	Beginning Balance	Increases	Decreases	Ending Balance
San Antonio Water Systems²				
Non-Depreciable Assets				
Land	\$ 58,316	\$ 477	\$ 0	\$ 58,793
Construction in Progress	319,251	49,420	(29,272)	339,399
Total Non-Depreciable Assets	377,567	49,897	(29,272)	398,192
Depreciable Assets				
Utility Plant in Service	1,763,749	30,747	(365)	1,794,131
Machinery and Equipment	98,159	3,836	(1,454)	100,541
Total Depreciable Assets	1,861,908	34,583	(1,819)	1,894,672
Accumulated Depreciation				
Utility Plant in Service	(565,799)	(25,462)	365	(590,896)
Machinery and Equipment	(50,337)	(3,992)	1,289	(53,040)
Total Accumulated Depreciation	(616,136)	(29,454)	1,654	(643,936)
Total Depreciable Assets, net	1,245,772	5,129	(165)	1,250,736
Total Capital Assets, net	\$ 1,623,339	\$ 55,026	\$ (29,437)	\$ 1,648,928

¹ For the fiscal year ended January 31, 2002

² For the seven months ended December 31, 2001

(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

Construction-in-progress relating to the Capital Assets is comprised of the following:

Construction-In-Progress: Assets-Governmental Activities				
	Project Authorization	Expended to Sept. 30, 2002	Committed	Required Future Financing
Buildings	\$ 40,207	\$ 34,920	\$ 5,287	None
Streets and Bridges	192,124	92,901	99,223	None
Storm Drainage and Flood Prevention	126,738	123,643	3,095	None
Improvements Other Than Buildings	292,270	265,055	27,215	None
Total	\$ 651,339	\$ 516,519	\$ 134,820	None

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(amounts are expressed in thousands)

5. DUE (TO) FROM OTHER FUNDS

The following is a summary of interfund receivables and payables for the City as of September 30, 2002:

Summary Table of Interfund Receivables and Payables As of September 30, 2002			
	Due From Other Funds	Due To Other Funds	
General Fund:			
Airport System	\$ 30	\$ 0	
Fiduciary Funds	337		
Internal Service Funds		16	
Nonmajor Governmental Funds	12,068	12	
Total General Fund	12,435	28	
Debt Service Funds:			
General Obligation Bonds	19		
Parking Facilities		48	
Nonmajor Governmental Funds	306		
Total Debt Service Funds	325	48	
General Obligation Bonds:			
Debt Service Funds		19	
Nonmajor Governmental Funds		82	
Total General Obligation Bonds		101	
Airport System Fund:			
Airport I&C Fund from the Airport Operating Fund	2,143		
Airport I&C Fund from the Airport Debt Service Fund	478		
Airport Operating Fund to the Airport I&C Fund		2,143	
Airport Debt Service Fund to the Airport I&C Fund		478	
General Fund		30	
Total Airport System Fund	2,621	2,651	
Parking Facilities:			
Debt Service Funds	48		
Total Parking Facilities	48		
Fiduciary Agency Funds:			
General Fund		337	
Nonmajor Governmental Funds		7	
Total Fiduciary Agency Funds		344	
Internal Service Funds:			
General Fund		9,500	
Internal Service	16		
Nonmajor Governmental Funds	12,813	21	
Total Internal Service Funds	22,329	9,521	
Nonmajor Governmental Funds:			
General Fund	12	12,068	
Debt Service Funds		306	
General Obligation Bonds	82		
Fiduciary Agency Funds	7		
Internal Service Funds	21	12,813	
Nonmajor Governmental Funds	2,427	2,427	
Total Nonmajor Funds	2,549	27,614	
Total	\$ 40,307	\$ 40,307	

(amounts are expressed in thousands)

5. DUE TO (FROM) OTHER FUNDS (Continued)

As of September 30, 2002, \$113 was owed to the Internal Service Funds by a Nonmajor Special Revenue Fund for loans made to fund improvements and leasing agent commissions at the International Center. This amount is scheduled to be collected in fiscal year 2003. In addition, a loan of \$478 was made by the Airport Improvement Contingency Fund to the Aviation Debt Service Fund in fiscal year 2002 for prepaid bond costs in connection with a Forward Refunding. Repayment is expected on April 8, 2003. The remaining balances represent short term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year end. Of the \$12,435 due from other funds in the General Fund, \$10,579 is a result of overdrafts of pooled cash.

6. LONG-TERM DEBT

A. Primary Government (City)

1. Governmental Activity Long-Term Debt

The City maintains a proactive debt management policy. The City's debt management plan employs a comprehensive analysis of the City's financial resources and capital improvement costs. Incorporated into the plan are long-term cash flow projections for the City's infrastructure needs, annexation plans, growth in assessed valuations and the revenue generating capacity of certain enterprise and self-supporting operations. The objective of the planning process is to minimize the cost of funds, minimize the impact on taxes and/or rate structures and maximize the benefits of capital improvements. Consistent with overall debt management is maintaining strong credit-worthiness. Routine comprehensive financial analysis and strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its Aa2/AA+/AA+ bond rating by Moody's Investors Service, Standard & Poor's Public Finance Ratings Services and Fitch, Inc., respectively as of September 30, 2002.

The City's on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2002. In November 2001, the City issued the following: \$84,945 General Improvement and Refunding Bonds, Series 2001 and \$65,195 Combination Tax and Revenue Certificates of Obligation, Series 2001. The bonds are secured by a pledge of ad valorem taxes while the certificates are secured by a pledge of ad valorem taxes and revenues from certain revenue generating operations.

The General Improvement and Refunding Bonds, Series 2001 were utilized to refund a portion of the City's outstanding tax supported debt, fund capital improvement projects to include streets and pedestrian improvements; drainage improvements; flood control with park improvements; parks and recreation facilities improvements; library system improvements; and public safety improvements. The Series 2001 General Improvement and Refunding Bonds are retired serially in the years 2002 through 2022 and bear interest rates ranging from 3.000% to 5.250%.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2001 will be utilized to fund capital improvements to include public safety, including constructing new fire stations and renovating and improving existing fire stations; street, sidewalk, bridge, and drainage improvements; improvements and renovations to existing municipal facilities; the acquisition of buildings, construction of street and drainage improvements and utility relocation related thereto, and demolition of buildings, relating to KellyUSA; construction of park improvements; the purchase of materials, supplies, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, street and public work purposes; the implementation of a new Enterprise Resource Management System, including development and installation costs relating thereto; and professional services related to the construction and financing of the aforementioned projects. The certificates are retired serially in the years 2003 through 2014 and bear interest rates ranging from 4.000% to 5.250%.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Additionally, in May 2002, the City issued \$251,280 of General Improvement Forward Refunding Bonds, Series 2002, of which \$239,910 is recorded in governmental funds and \$11,370 is recorded in proprietary funds. Delivery of the bonds occurred on May 8, 2002. These obligations were issued to advance refund \$256,125 of outstanding long-term debt, of which \$244,535 was recorded in governmental funds and \$11,590 was recorded in proprietary funds. The obligations bear interest ranging from 4.000% to 5.250% and will be retired serially in the years 2002 through 2013.

A portion in the amount of \$7,112 of the net proceeds from the sale of the 2001 General Improvement and Refunding Bonds, including \$92 of the original issue premium, was applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2001 refunding, the City will realize a total reduction of \$1,332 in debt service payments. Through the transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of \$926.

The net proceeds from the sale of the 2002 Forward Refunding bonds, which included an original issue premium of \$13,638, were applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2002 refunding, the City will realize a total reduction of \$23,561 in debt service payments, of which \$22,570 is allocated to governmental funds. Through the transactions, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of \$19,662, of which \$18,924 is allocated to governmental funds.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year ended September 30, 2002 for governmental activity debt:

Governmental Activity Long-Term Debt						
Issue	Original Amount	Final Principal Payment	Interest Rates (%) ¹	Balance Outstanding October 1, 2001	Additions During Year	Deletions During Year
General Obligation Bonds²						
1988 Refunding	\$ 132,978	2006	7.250-7.400	\$ 4,008	\$	\$ 0
1992 Refunding	380,540	2013	5.200-5.750	259,255		259,255
1991 Refunding	92,165	2014	4.000-5.000	78,435		7,340
1996	36,430	2004	5.800-6.000	3,850		1,200
1996A Refunding	82,230	2015	5.100-5.250	28,475		1,375
1996B Refunding	30,855	2008	4.375-6.000	75,565		1,385
1998 Refunding	31,980	2018	4.500-5.000	29,395		525
1998A Refunding	47,955	2019	4.500-6.000	44,260		785
1999	12,000	2020	4.000-4.750	47,040		7,340
2000	27,565	2020	5.375-6.000	12,000		855
2000A	15,615	2021	4.500-5.000	27,565		360
2001	84,945	2022	5.250-5.375	15,615		910
2002 Refunding	239,910	2013	4.000-5.250		84,945	285
Subtotal	\$ 1,272,523			\$ 629,898	\$ 324,835	\$ 285,280
Tax-Exempt Commercial Paper	\$ 15,000	2020	5.000	\$ 15,000	\$ 0	\$ 15,000
Series 2001	32,700	2004	1.200-3.450	32,700		11,900
Subtotal	\$ 47,700			\$ 47,700	\$	\$ 26,900
Tax-Exempt Certificates of Obligation						
Series 1988	\$ 4,400	2002	7.300	\$ 275	\$	\$ 275
Series 1992	17,655	2013	5.200-5.750	7,620		7,620
Series 1994	9,900	2004	5.750-6.000	1,260		375
Series 1996	8,415	2015	5.100-5.400	6,805		885
Series 1996A	12,515	2016	4.375-5.250	10,355		330
Series 1998	4,315	2018	4.625-5.000	3,720		485
Series 1998A	36,535	2019	4.000-4.750	33,585		315
Series 1999	4,230	2020	5.750-6.000	4,230		1,560
Series 2000	8,490	2020	4.500-5.000	8,490		125
Series 2000A	8,810	2021	5.250-5.375	8,810		280
Series 2000C	6,415	2020	5.000-5.500	6,415		6,415
Series 2001	65,195	2014	4.000-5.250		65,195	
Subtotal	\$ 186,875			\$ 91,575	\$ 65,195	\$ 11,365
Taxable Certificates of Obligation						
Series 1988	\$ 6,700	2008	9.400-9.500	\$ 3,925	\$	\$ 3,925
Series 1996	6,160	2015	6.550-7.125	5,100		3,050
Series 1996B	7,375	2016	6.350-7.250	6,230		255
Series 2000B	1,755	2021	7.450-7.550	1,755		
Subtotal	\$ 21,990			\$ 17,010	\$ 0	\$ 7,230
Hotel Occupancy Tax Revenue Bonds³						
Series 1996	\$ 182,012	2026	4.700-5.700	\$ 180,773	\$	\$ 1,380
Total	\$ 1,711,100			\$ 966,596	\$ 390,050	\$ 332,155
						\$ 1,024,851

¹ A portion of the outstanding principal applicable to certain series of bonds was advance refunded, prior to maturity, by the Series 1988, 1992, 1993, 1996A, 1996B, 1998, 1999A, and 2002 refundings. The refunded principal is scheduled to mature on such dates that when added to interest earned in the escrow accounts, is fully sufficient to make timely payment on the refunded bonds. The refunded principal is not a liability of the City.

² Accretion of interest on the 1988 General Improvement Refunding Bonds for Fiscal Year 2002 resulted in an increase of \$6,832 in General Obligation Bonds Payable. This increase is reflected on the Combined Balance Sheet but is not shown on the above table.

³ As of October 1, 2001, all outstanding Hotel Occupancy Tax Revenue Bonds, Series 1996 were sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from the date of delivery and will be applied only at maturity or redemption. The interest accreted through Fiscal Year 2002 resulted in an increase of \$10,947 in Revenue Bonds Payable. The accreted interest is reflected on the Combined Balance Sheet but is not shown on the above table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all General Obligation Bonds, Tax Exempt Commercial Paper, Certificates of Obligation, Hotel Occupancy Tax Revenue Bonds, outstanding as of September 30, 2002, are as follows:

Principal and Interest Requirements									
Year Ending September 30,	General Obligation Bonds			Tax Exempt Commercial Paper		Certificates of Obligation		Hotel Occupancy Tax Revenue Bonds	
	Principal	Interest	Total	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 33,227	\$ 31.0	\$ 33,258	\$ 9,400	\$ 31.0	\$ 6,550	\$ 7,835	\$ 2,045	\$ 8,756
2005	48,305	33,665	81,970	9,400	150	9,420	7,033	2,045	8,522
2006	41,134	31,523	72,657	9,400	150	9,420	6,590	2,045	8,346
2007	48,555	24,588	73,143	9,400	150	9,420	6,075	2,045	8,091
2008-2012	250,380	82,897	333,277	39,400	7,147	39,400	21,745	28,521	47,468
2013-2017	114,955	31,965	146,920	11,150	980	11,150	57,820	27,172	176,390
2018-2022	70,900	8,278	79,178				59,206	8,685	67,891
2023-2027									
Total	\$ 699,473	\$ 277,130	\$ 976,603	\$ 20,800	\$ 700	\$ 155,185	\$ 64,866	\$ 179,393	\$ 194,641
Total Principal & Interest Payable Within One Year									
Principal	\$ 47,155		\$ 47,155	\$ 11,400		\$ 6,550		\$ 2,045	
Interest	33,227		33,227	510		7,835		8,756	
Total	\$ 80,382		\$ 80,382	\$ 11,910		\$ 14,385		\$ 10,801	

1 Accretion of interest on the 1998 General Improvement Bonds for the year ended September 30, 2002 resulted in an increase of \$6,832 in General Obligation Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

2 A portion of the Hotel Motel Occupancy Tax Revenue Bonds (Series 1999) were sold as Capital Appreciation Bonds (CABS). Interest on the CABS accrues from the date of delivery and will be payable only at maturity or redemption. The interest accrued through September 30, 2002 resulted in an increase of \$10,947 in Revenue Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Authorized But Unissued General Obligation Debt					
Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized But Unissued	
1-26-80	Drainage and Flood Control	\$ 21,637	\$ 17,413	\$ 4,224	
1-26-80	Fire Protection	4,257	2,125	2,132	
1-26-80	Libraries	4,978	3,926	1,052	
1-26-80	Street, Bridge, and Related Improvements	43,287	34,035	9,252	
5-07-94	Street Improvements	25,600	25,600		
5-07-94	Drainage Improvements	34,400	34,400		
5-07-94	Parks and Recreation	41,600	41,600		
5-01-99	Streets and Pedestrian Improvements	41,300	36,590	4,710	
5-01-99	Drainage	19,000	14,165	4,835	
5-01-99	Flood Control	12,200	12,200		
5-01-99	Parks and Recreation	24,200	18,164	6,036	
5-01-99	Library System	13,200	6,426	6,774	
5-01-99	Public Safety	30,300	20,045	10,255	
Total		\$ 315,959	\$ 266,689	\$ 49,270	

1 In addition to the debt authorized on May 1, 1999, the City has authority pursuant to an election held on January 26, 1980 to issue \$16,660,000 in bonds. The City does not currently intend to issue the bonds authorized in 1980.

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2002 was \$44,120,535 which provides a debt ceiling of \$4,412,054. The total outstanding debt that is secured by an ad valorem tax pledge is \$838,428.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed \$2.50 for each one hundred dollars of assessed valuation of taxable property. There is no limitation within the \$2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from \$1.50 tax rate calculated at 90% collections.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

Interfund Borrowings

As an alternative to the issuance of external debt to finance certain projects/purchases, the City has determined that the use of available cash balances in the Internal Service Equipment Replacement Funds is a viable option. In certain instances, after an evaluation of project/purchase funding requirements, it has been determined that some funds or operations may require temporary financing. As an option, the City has authorized such internal temporary financing from available cash balances in the Internal Service Equipment Replacement Funds to meet these needs.

In June 1999, a loan was authorized from the City's Internal Service Fund to the International Center Special Revenue Fund to assist in the financing of permanent building improvements and leasing agent commissions. The principal amount of the note is \$200 with an annual interest rate of 6% and a repayment period of October 1999 through September 2003. In December 1999, a second loan was authorized from the City's Internal Service Fund to the International Center Fund to cover additional permanent building improvements. The principal amount of the note is \$137 with an annual interest rate of 6% and a repayment period of December 1999 through September 2003. In September 1999, a third loan was authorized from the City's Internal Service Fund to the International Center Fund to cover additional permanent building improvements. The principal amount of the note is \$62 with an annual interest rate of 6% and a repayment period of April 2000 through September 2003. Revenues from the International Center rentals will be utilized to meet the annual principal and interest requirements of the notes. As of September 30, 2002, the remaining balance for the notes payable from the International Center Fund have been recorded as a governmental liability. The following is an annual debt service schedule:

Principal and Interest Requirements			
Year Ending	Principal	Interest	Total Annual Requirements
September 30,			
2003	\$ 113	\$ 7	\$ 120

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

Leases

The City leases property and equipment from others. Leased property having elements of ownership are recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property, not having elements of ownership, are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when matured in the governmental fund financial statements. Total expenditures for operating leases for the fiscal year ended September 30, 2002 were approximately \$2.9 million.

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for governmental activities are as follows:

Asset:	
Machinery and Equipment	\$ 11,756
Less: Accumulated Depreciation	(3,061)
Total	\$ 8,695

As of September 30, 2002, the City (excluding discretely presented component units) had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

Leases - Governmental Activities			
Governmental Activities: Fiscal year ending September 30:	Capital Leases		Operating Leases
			Total
2003	\$ 3,166	\$ 2,649	\$ 5,815
2004	2,543	2,248	4,791
2005	2,077	1,770	3,847
2006	734	1,672	2,406
2007	390	780	1,170
2008-2012		2,971	2,971
2013-2017		3,277	3,277
2018-2022		2,821	2,821
Future Minimum Lease Payments	8,910	18,188	27,098
Less: Interest		(613)	
Present Value of Future Minimum Lease Payments		8,297	
Less: Current Portion		(2,867)	
Capital Leases, net of current portion	\$	5,430	

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

In May 2002, the City issued \$251,280 of General Improvement Forward Refunding Bonds, Series 2002 of which \$239,910 was reported in governmental funds and \$11,370 was reported in proprietary funds. Delivery of the bonds occurred on May 8, 2002. These obligations were issued to advance refund \$256,125 of outstanding long-term debt, of which \$244,535 was reported in governmental funds and \$11,590 was reported in proprietary funds. The obligations bear interest ranging from 4.000% to 5.250% and will be retired serially in the years 2002 through 2013.

The net proceeds from the sale of the 2002 Forward Refunding bonds, which included an original issue premium of \$13,638, were applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2002 refunding, the City will realize a total reduction of \$23,561 in debt service payments, of which \$991 will be realized by the Parking Fund. Through the transactions, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of \$19,662, of which \$738 was realized by the Parking Fund. Total annual principal and interest requirements for the Parking System are shown in the table at the end of this section.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt

Proprietary long-term debt applies to those City operations that relate to business and quasi-business activities where net income and capital maintenance are measured (Enterprise and Internal Service Funds). Long-term debt, which is to be repaid from proprietary funds resources, is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

Airport System: The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt is equally and ratably secured solely by a first lien on and pledge of the Gross Revenues of the Airport System. Gross Revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the System and its facilities. In March 2002, the City sold \$92,470 City of San Antonio, Texas Airport System Revenue Improvement Bonds, Series 2002 (GAR Bonds), which will be utilized to provide funds for the construction, improvements, equipment, renovation, and additions to the International Airport and to pay costs of issuances thereof. The bonds are retired in years 2005 to 2027 and have interest rates ranging from 5.00% to 5.75%.

On April 19, 2001, the City Council approved the sale of the City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003. Delivery of these obligations is expected to occur on or about April 8, 2003. The principal amount is \$50,230 with maturities from 2004 through 2013, and interest rates from 5.50% to 6.00%. These bonds are special obligations of the City payable from gross revenues of the City's airport system. Proceeds will be combined with a cash contribution from the City and used to refund other Airport System obligations.

Additionally, in March 2002, the City sold \$37,575 of City of San Antonio, Texas Passenger Facility Charge (PFC) and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2002, which will be available for purposes of acquiring and constructing PFC eligible airport-related projects. The Series 2002 PFC Bonds are secured by and payable from PFC revenues, with additional security provided by a pledge of the Subordinate Net Revenues of the Airport System subordinated to the timely payment of debt service on all parity bonds. The bonds are retired in years 2003 to 2027 and have interest rates ranging from 4.00% to 5.75%. GAR and PFC bonds are insured by Financial Guaranty Insurance Company and are rated Aaa/AAA/AAA by Moody's Investors Service, Standard & Poor's Public Finance Ratings Services and Fitch, Inc., respectively. Total annual principal and interest requirements for the Airport System are shown in the table at the end of this section.

Parking System: The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters and retail/office space. Long-term debt is allocated to the Parking System on a pro-rata basis from proceeds received from the issuance of general obligation and certificate of obligation debt and is paid from revenues derived from the operation of the Parking System. This allocated debt is additionally secured by an ad valorem tax pledge. Additionally, during fiscal year 2000, Revenue bonds were issued to construct two new parking garages; renovate certain existing facilities; and provide signage. The bonds are payable from and secured by a first lien on and a pledge of the gross revenues derived from the ownership and operation of the City's Parking system. The bonds are retired serially in years 2004 to 2024 and bear interest rates from ranging from 5.000% to 5.750%.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

- A. Primary Government (City) (Continued)
2. Proprietary Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to revenue bonds, general obligations, and certificates of obligation outstanding at September 30, 2002, are as follows:

Proprietary Long-Term Debt												
Year End	Airport System				Parking System							
	Principal		Interest		Total		Principal		Interest		Total	
	\$		\$		\$		\$		\$		\$	
Sept. 30:	2003	6,185	13,425	19,610	1,140	2,041	3,181					
	2004	6,570	13,044	19,614	1,590	1,995	3,585					
	2005	8,060	12,632	20,692	1,670	1,921	3,591					
	2006	8,575	12,140	20,715	1,760	1,839	3,599					
	2007	8,505	11,616	20,121	1,830	1,751	3,581					
	2008-2012	56,440	48,935	105,375	10,535	7,248	17,783					
	2013-2017	56,985	29,700	86,685	7,375	4,804	12,179					
	2018-2022	34,305	17,362	51,667	8,560	2,715	11,275					
	2023-2027	44,710	7,289	51,999	4,155	362	4,517					
	Total	\$ 230,335	\$ 166,143	\$ 396,478	\$ 38,615	\$ 24,676	\$ 63,291					

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

- A. Primary Government (City) (Continued)
2. Proprietary Long-Term Debt (Continued)

The following table is a summary of changes in revenue bonds, general obligation bonds and tax-exempt certificates of obligation for the fiscal year ended September 30, 2002.

Proprietary Long-Term Debt									
Issues	Original Amount	Fiscal Principal Payment	Interest Rate (%)	Balance Outstanding October 1, 2001	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2002		
Airport System									
Revenue Bonds:									
Series 1992 Refunding	\$ 3,130	2009	6.100	\$ 3,130	\$ 0	\$ 0	\$ 3,130		
Series 1992	21,655	2006	5.500-5.750	9,675	1,270	0	7,945		
Series 1997 Refunding	73,785	2013	7.000-7.375	55,545	3,683	3,683	52,660		
Series 1996	38,000	2014	5.700-5.750	19,225	275	0	18,950		
Series 2001	17,795	2016	5.375	17,795	0	0	17,795		
Series 2002	92,470	2027	5.000-5.750	92,470	0	0	92,470		
Series PFC	27,275	2027	4.000-5.750	27,275	0	0	27,275		
Subtotal	\$ 284,410			\$ 105,270	\$ 120,445	\$ 5,080	\$ 220,335		
Parking System									
Revenue Bonds:									
Series 2000	\$ 24,845	2004	5.000-5.750	\$ 24,845	\$ 0	\$ 0	\$ 24,845		
General Obligations:									
Series 1992 Refunding	16,785	2013	5.200-5.750	11,130	11,130	0	0		
Series 1996A Refunding	495	2014	4.650-5.400	495	0	0	495		
Series 1995A Refunding	1,155	2013	4.000-5.250	1,155	0	0	1,155		
Series 2002 Refunding	11,270	2013	4.000-5.250	11,270	165	0	11,205		
Series 2002 Refunding Certificates of Obligation									
Series 1992	1,235	2013	5.200-5.750	1,245	1,245	0	2,490		
Series 1994	700	2004	5.750-6.000	90	25	0	65		
Series 1996	1,105	2015	5.100-5.400	895	45	0	850		
Subtotal	\$ 35,190			\$ 40,055	\$ 11,370	\$ 12,810	\$ 38,615		
Total	\$ 342,600			\$ 145,325	\$ 141,415	\$ 17,890	\$ 268,950		

A portion of the outstanding principal applicable to certain series of Parking System bonds and certificates of obligation were advanced refunded prior to maturity, by the Series 1987, 1992, 1993, 1996A, 1998A, and 2007 refunding bonds. Proceeds from the refunding bonds along with a cash contribution from the City's Debt Service Fund were used to pay the principal and interest on the advanced refunded bonds. The advanced refunded bonds are not a liability of the City. The refunding bonds represent a legal defeasance and are not a liability of the City.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

Leases

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for business-type activities are as follows:

Asset:	
Machinery and Equipment	\$ 709
Less: Accumulated Depreciation	(59)
Total	<u>\$ 650</u>

As of September 30, 2002, the City (excluding discretely presented component units) had future minimum payments under capital leases with a remaining term in excess of one year for business-type activities as follows:

Leases - Proprietary Activities: Nonmajor Enterprise Fund	
Proprietary Activities	Capital Leases
Fiscal year ending September 30:	
2003	\$ 156
2004	156
2005	156
2006	155
2007	117
Future minimum lease payments	<u>740</u>
Less: Interest	(63)
Present Value of Future minimum Lease Payments	<u>677</u>
Less: Current Portion	(133)
Capital Leases, net of current portion	<u>\$ 544</u>

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt

Long-Term Obligations and Amounts Due Within One Year

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
General Obligation Bonds	\$ 629,898	\$ 324,855	\$ 285,280	\$ 669,473	\$ 47,155
Tax-Exempt Commercial Paper	47,700		26,900	20,800	11,400
Tax-Exempt Certificates of Obligation	91,575	65,195	11,365	145,405	6,010
Taxable Certificates of Obligation	17,010		7,230	9,780	540
Hotel Tax Revenue	180,773		1,380	179,393	2,045
	<u>966,956</u>	<u>390,050</u>	<u>332,155</u>	<u>1,024,851</u>	<u>67,150</u>
Less: Unamortized (Discount)/Premium		19,548	874	18,674	1,626
Deferred Amount on Refunding		(720)	164	(556)	(196)
Total Bonds Payable	<u>966,956</u>	<u>408,878</u>	<u>333,195</u>	<u>1,042,969</u>	<u>68,580</u>
Other Liabilities:					
Accrued Arbitrage Rebate Payable	694	907	21	1,580	381
Capital Leases	5,049	5,083	1,835	8,297	2,867
Compensated Absences	79,210	77,691	42,807	114,094	34,340
	<u>84,953</u>	<u>83,681</u>	<u>44,663</u>	<u>123,971</u>	<u>37,588</u>
Total Governmental Activities	<u>\$ 1,051,909</u>	<u>\$ 492,559</u>	<u>\$ 377,856</u>	<u>\$ 1,166,940</u>	<u>\$ 106,568</u>
Long-term Liabilities					
Business-type Activities:					
Bond Payable:					
General Obligation Bonds	\$ 12,980	\$ 11,370	\$ 11,495	\$ 12,855	\$ 1,065
Revenue Bonds	130,215	130,045	5,080	255,180	6,185
Tax-Exempt Certificates of Obligation	2,230		1,315	915	75
	<u>145,425</u>	<u>141,415</u>	<u>17,890</u>	<u>268,950</u>	<u>7,325</u>
Less: Unamortized (Discount)/Premium	(641)	1,558		917	
Deferred Amount on Refunding	(96)	(457)	25	(528)	
Total Bonds Payable	<u>144,688</u>	<u>142,516</u>	<u>17,915</u>	<u>269,339</u>	<u>7,325</u>
Other Payables:					
Aviation	992	507	851	649	\$
Parking	997	142	694	445	\$
Nonmajor Fund	1,069	25	41	1,053	1,084
Total Other Payables	<u>3,058</u>	<u>674</u>	<u>1,586</u>	<u>2,147</u>	<u>1,094</u>
Capital Leases-Nonmajor Fund		708	32	677	133
Compensated Absences	1,948	300	525	1,723	287
Total Other Liabilities	<u>5,006</u>	<u>1,682</u>	<u>2,143</u>	<u>4,547</u>	<u>1,514</u>
Business-type Activity					
Long-term Liabilities	<u>\$ 149,694</u>	<u>\$ 144,198</u>	<u>\$ 20,058</u>	<u>\$ 273,866</u>	<u>\$ 8,839</u>

The accrued interest for Fiscal Year 2002, resulted in an increase of \$10,947 in Hotel Tax Revenue Bonds Payable in governmental activities and an increase of \$6,832 in General Obligation Bonds Payable. The accrued interest in the amount of \$17,779 is reflected on the governmental fund combined statement but is not reflected in this table.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt (Continued)

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2002, there were thirty-five series of Industrial Revenue Bonds, twenty-one series of Health Facilities Development Bonds, and eleven series of Education Facility Revenue Bonds outstanding. The aggregate principal amount payable for the one series of Industrial Revenue Bonds, the one series of Health Facilities Development Bonds, and the four series Education Facility Revenue Bonds issued after October 1, 1997 was \$5,500, \$15,500, \$58,080, respectively. The aggregate principal amount payable for the remaining series of Industrial Revenue Bonds, Health Facilities Development Bonds, and Education Facility Revenue Bonds issued prior to October 1, 1997 is \$112,490, \$80,581, and \$67,720, respectively.

The City also facilitates the issuance of tax exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from and secured by a pledge of rental receipts. As of June 30, 2002, there were twenty-three series of tax exempt revenue bonds outstanding with an aggregate principal amount payable of \$112,345 and an aggregate principal amount issued of \$130,300.

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Facilities Airport Revenue Bonds, Series 1995 and Special Airport Facilities Revenue Refunding Bonds, Series 1999. The bonds are payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third party trustee in-lieu of lease payments to the City. These payments are sufficient to pay when due the principal, premium, interest on and purchase price of the bonds. The aggregate principal amount payable for the Special Facilities Airport Revenue Bonds, Series 1995 and for the Special Airport Facilities Revenue Refunding Bonds, Series 1999 at September 30, 2002 was \$4,600 and \$3,973, respectively.

The Municipal Facilities Corporation was created in 2001 to aid and act on behalf of the City to acquire, construct, equip, finance, operate and maintain land and municipal facilities for the City. The City of San Antonio, Municipal Facilities Corporation Lease Revenue Bonds, Series 2001 were issued to finance the acquisition and construction of a municipal office facility which, in turn, is leased to the City. The bonds are secured by the property financed and are payable solely from the lease payments made by the City sufficient to pay principal and interest on the bonds and are subject to annual budget appropriations. The bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2002, the Municipal Facilities Corporation Lease Revenue Bonds outstanding totaled \$13,955.

Neither the City, the State of Texas, nor any political subdivision is obligated in any manner for repayment of the aforementioned bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt (Continued)

Compensated Absences

The following is a summary of compensated absences for the year ended September 30, 2002:

Governmental Activities				
Fund Type	Short-Term Available	Short-Term Remaining	Short-Term Total	Total
Governmental Funds	\$ 5,760	\$ 28,800	\$ 34,560	\$ 78,452
Internal Service Funds		180	180	902
Total Governmental Activities	\$ 5,760	\$ 28,980	\$ 34,740	\$ 79,354

Business-Type Activities			
Fund	Current	Long-Term	Total
Airport	\$ 140	\$ 700	\$ 840
Parking	20	103	123
Non-Major Fund	127	633	760
Total Business-Type Activities	\$ 287	\$ 1,436	\$ 1,723

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS)

As of January 31, 2002, the Bond Ordinances for New Series Bonds issued on and after August 6, 1992 contain, among others, the following provisions:

Funds in CPS's General Account shall be pledged and appropriated to be used in the following priority: (a) for maintenance and operating expenses of the systems, (b) for payments of the New Series Bonds, including the establishment and maintenance of the reserve therefore, (c) for the payment of any obligations inferior in lien to the New Series Bonds which may be issued, (d) for an amount equal to 6% of the gross revenues of the systems to be deposited in the Repair and Replacement Account, (e) for cash payments and benefits to the City not to exceed 14% of the gross revenues of the systems, and (f) any remaining net revenues in the General Account to the Repair and Replacement Account.

The maximum amount in cash to be transferred or credited to the General Fund of the City from the net revenues of the systems during any fiscal year shall not exceed 14% of the gross revenues of the systems less the value of gas and electric services of the systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system. The percentage of gross revenues of the systems to be paid over or credited to the General Fund of the City each fiscal year shall be determined (within the 14% limitation) by the governing body of the City. The net revenues of the systems are pledged to the payment of principal and interest on the New Series Bonds. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the systems.

The City agrees that it will at all times maintain rates and charges for the sales of electric energy, gas, or other services furnished, provided, and supplied by the systems to the City and all other consumers which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

- (a) all maintenance and operating expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502, as amended, Texas Government Code;
- (b) the interest on and principal of all New Series Bonds, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the New Series Bonds;
- (c) to the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the Commercial Paper), the interest on and principal of all Notes (as defined in said ordinance), and
- (d) a legal debt or obligation the systems as and when the same shall become due.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

Revenue Bonds

A summary of revenue bonds is as follows:

City Public Service Revenue Bonds				
Bond Series	Maturities	Weighted-Average Interest Rate on		2002
		Outstanding Bonds		
Tax Exempt New Series Bonds, 1992-2001	2003-2021	5.223%		\$ 2,445,270
Taxable New Series Bonds, 1998-2001	2003-2021	6.674%		144,590
Total New Series Bonds Outstanding		5.317%		2,589,860
Less: Current Maturities of Bonds				77,825
Total Revenue Bonds, net of current maturities				<u>\$ 2,512,035</u>

Principal and interest amounts due for the next five years and thereafter to maturity are:

City Public Service				
Principal and Interest Requirements				
Year	Principal	Interest	Total	
2003	\$ 77,825	\$ 136,336	\$ 214,161	
2004	100,015	132,686	232,701	
2005	120,335	127,615	247,950	
2006	126,635	121,369	248,004	
2007	134,515	114,766	249,281	
2008-2012	776,510	463,969	1,240,479	
2013-2017	740,305	250,425	990,730	
2017-2021	513,720	60,431	574,151	
Totals	\$ 2,589,860	\$ 1,407,597	\$ 3,997,457	

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS)

On April 30, 1992, City Ordinance No. 75686 was adopted. This ordinance authorized the issuance of \$635,925 Water System Revenue Refunding Bonds, Series 1992, dated April 15, 1992. These bonds were issued to refund, in advance of maturity, \$253,065 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 52091, \$330,125 of Sewer Revenue Bonds authorized and outstanding under terms of City Ordinance No. 51975, \$14,500 of other bonded debt of annexed water districts, and \$49,200 of Sewer System Commercial Paper. The purpose of this advance refunding was to release and discharge the covenants contained in City Ordinance No. 52091 and No. 51975 in order to permit the City to consolidate the operations of the water related utilities.

The System: City Ordinance No. 75686 defines SAWS as all properties, facilities, plants owned, operated and maintained by the City and/or the Board of Trustees, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS; provided however, that the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code. See "Stormwater" below.

Funds Flow: City Ordinance No. 75686 requires that Gross Revenues of SAWS be applied in sequence to: (1) current maintenance and operating expenses including a two month reserve based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) payment of amounts required on Inferior Lien Obligations, and (7) transfers to the City's General Fund and to the Renewal and Replacement Fund.

Reuse Contract: SAWS has a contract with City Public Service, the City owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities, are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this contract were \$1,167 during the seven months ended December 31, 2001.

SAWS is developing a recycled water system, which will provide non-potable water to various customers now using Edwards Aquifer water. During the seven months ended December 31, 2001, the System generated an additional \$252 in revenue from sales of recycled water. Revenue from recycled water sales is recorded as revenue of the System and does have the restrictions of the reuse contract.

Stormwater: In addition to the water related utilities which the Board has under its control, the City Council approved Ordinance No. 77949 on May 13, 1993, which established initial responsibilities over the Stormwater Program with the System and adopts a schedule of rates to be charged for stormwater services and programs. The Stormwater Program is deemed to not be a part of SAWS as the term is defined in City Ordinance No. 75686. Accordingly, operations of the Stormwater Program are not considered when determining compliance with debt covenants contained in City Ordinance 75686 or in calculating payments to be made to the City. In fiscal year 1997, the City Council placed the administrative responsibility with its own staff and entered into an interlocal agreement with SAWS for the provision of services related to certain water quality monitoring functions.

No Free Service: City Ordinance No. 75686 also provides for no free services except for municipal fire-fighting purposes.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

In November 2001, CPS issued \$115.3 million of New Series 2001 Revenue Refunding Bonds at a true interest rate of 3.84 percent. The bonds were sold at a combined net premium of \$10.5 million.

The refunding bonds were issued to refund \$122.5 million in certain outstanding 1992 New Series Bonds, and were \$7.2 million less than the amount of bonds refunded. The refunding transaction resulted in cash flow savings of \$14.2 million, which equates to a present value savings of \$11.7 million, or 9.6 percent of the par amount of refunded bonds. This transaction resulted in loss for accounting purposes of \$2.4 million which has been deferred and will be amortized over the shorter of life of the refunded or refunding bonds.

Long-Term Debt Activity									
Issue	Original Amount	Final Payment	Interest Rates (%)	Balance Outstanding February 1, 2001	Additions During Year	Deletions During Year	Balance Outstanding January 31, 2002		
Revenue and Refunding Bonds									
1992 Tax-exempt	\$ 700,805	2017	6.048	\$ 254,155	\$ 0	\$ 132,540	\$ 121,615		
1994-A Tax-exempt	684,700	2014	5.008	595,805		30,235	565,570		
1994-C Tax-exempt	56,000	2006	5.008	42,710			42,710		
1995 Tax-exempt	125,000	2018	5.500	112,300		3,000	109,300		
1997 Tax-exempt	350,000	2020	5.738	332,570			332,570		
1997 Tax-exempt	311,170	2014	5.509	245,880		1,575	244,305		
1998-A Tax-exempt	785,515	2021	4.918	767,160		24,010	743,150		
1998-B Taxable	99,615	2020	6.343	97,045		1,655	95,390		
2000-A Tax-exempt	170,770	2017	5.374	170,770			170,770		
2000-B Taxable	50,425	2021	7.403	50,425		1,225	49,200		
2001 Tax-exempt	115,280	2011	3.843		115,280		115,280		
				2,668,820	115,280	194,240	2,589,860		
Less Bond current maturities				71,755	6,070		77,825		
Less Bond discount/premium				3,485	(10,528)	3,499	(10,542)		
Less Bond acquisition costs				158,691	5,611	18,573	145,729		
Revenue Bonds, Net				2,434,889	114,127	172,168	2,376,848		
Tax-Exempt Commercial Paper (TECP)				252,800	97,200		350,000		
Long-term Debt, Net				\$ 2,687,689	\$ 211,327	\$ 172,168	\$ 2,726,848		

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds

Senior Lien Water System Revenue Bonds, comprised of Series 1992, Series 1996, Series 1997, Series 1999, and Series 2001, outstanding in the amount of \$594,200 are collateralized by a senior lien and pledge of Gross Revenues of SAWS after deducting and paying the current expenses of operation and maintenance of the System and maintaining an operating reserve for operating and maintenance expenses. At December 31, 2001, these bonds are due in varying amounts, from a low of \$13,540 in 2019 to a high of \$38,690 in 2012.

Junior Lien Water System Revenue Bonds, comprised of Series 1999, Series 1999-A, Series 2001, and Series 2001-A outstanding in the amount of \$134,255 at December 31, 2001, and are collateralized by a junior lien and pledge of the gross revenues of the System after deducting and paying the current expenses of operation and maintenance of the System, maintaining an operating reserve for operating and maintenance expenses, and debt service on senior lien debt. At December 31, 2001, the Junior Lien bonds were due in varying amounts, from a low of \$1,920 in 2020 to a high of \$10,900 in 2019.

Revenue bonds currently outstanding are as follows:

San Antonio Water System					
Purpose	Beginning Balance	Interest Rates	Amount	Ending Balance	Due Within
Build, improve, extend, enlarge, and repair the System	June 1, 2001	1.85-6.5%	\$ 728,455	Dec. 31, 2001	One Year
	\$ 728,455		\$ 0	\$ 728,455	\$ 25,045
Bonds Payable					
Less Deferred Amounts					
For issuance discounts/					
premiums/losses					
Total Bonds Payable, Net	\$ 728,455	\$ 1.639	(24,114)	(22,475)	\$ 25,045
			\$ (24,114)	\$ 705,980	\$ 25,045

The following summarizes transactions of the revenue bonds for the seven months ended December 31, 2001:

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Annual debt service requirements are shown as follows:

San Antonio Water System					
Annual Debt Service Requirements					
Revenue Bonds					
Year Ended December 31,	Junior Lien Revenue and Refunding Bonds		Senior Lien Revenue and Refunding Bonds		
	Principal	Interest	Principal	Interest	
2002	\$ 4,515	\$ 4,857	\$ 20,530	\$ 33,908	
2003	4,640	4,726	22,085	32,610	
2004	4,780	4,586	23,480	31,201	
2005	4,920	4,436	24,945	29,760	
2006	5,075	4,276	26,445	28,229	
2007-2011	34,585	18,140	162,845	113,261	
2012-2016	41,975	11,170	127,105	68,585	
2017-2021	33,765	2,541	95,825	37,024	
2022-2026			90,940	13,363	
Total	\$ 134,255	\$ 54,732	\$ 594,200	\$ 387,941	

Capitalized Interest Costs

Interest costs incurred on revenue bonds and short-term commercial paper debt totaled \$25,528 during the seven months ended December 31, 2001, of which \$4,169 was capitalized as part of the cost of SAWS' utility plant additions.

Leases

SAWS entered into various lease agreements for financing the acquisition of computer equipment, software and heavy equipment. These lease agreements meet the requirements of capital lease for accounting purposes and therefore, are recorded at the present value of the future minimum lease payments as of the inception date. The terms of the leases are for three to five years with payments of \$23,869 monthly and \$286,435 annually. The annual percentage rate of the leases range from 3.18% to 5.8%. At the end of the respective lease terms, the ownership of the equipment transfers to SAWS. Please note the amounts in this paragraph are not stated in thousands.

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(amounts are expressed in thousands)

7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS

A. Primary Government (City)

Commercial Paper

In October 1999, the City Council of the City of San Antonio, Texas (City Council) adopted an ordinance authorizing the issuance of up to \$50,000 in General Improvement Commercial Paper Notes (the Notes). This ordinance provides interim financing to pay project costs for eligible projects and to refund obligations issued in connection with an eligible project. Eligible projects are defined as any project for which there exists, as of the date of the note ordinance, authorized but unissued obligations approved at an election held on May 1, 1999 and projects approved by future elections. The Notes will be issued with various maturities ranging from 1 to 270 days, provided however, that none of the Notes mature later than February 1, 2020.

Under a revolving credit agreement, dated as of December 15, 1999, between the City and Bank One, NA (the Bank) the City may borrow up to an aggregate principal amount of up to \$53,699 for the purposes of paying amounts due on the Commercial Paper notes. The notes were issued to pay costs of capital improvements authorized to be financed by the May 1, 1999 election.

The City issued \$15,000 of the General Improvement Commercial Paper Notes on July 6, 2000. Proceeds of the notes have been used to provide financing to pay costs for eligible projects. On November 29, 2001, the City issued bonds to refund the \$15,000 in outstanding Commercial Paper Notes.

On November 9, 2000, the City Council approved issuance of \$35,000 Sales Tax Commercial Paper Notes, Series A. The proceeds from the sale of the Notes are to provide for the planning, acquisition, establishment, development, construction, and renovation of the "Parks Development and Expansion Venue Project" authorized at an election held on May 6, 2000 which includes the acquisition of open space over the Edwards Aquifer Recharge Zone and linear parks along Leon Creek and Salado Creek, and the construction of improvements or additions to such Open Space Parks and Linear Parks. The Notes are supported by an irrevocable direct-pay Letter of Credit, dated as of December 5, 2000 to be issued by Landesbank Hessen-Thüringen Girozentrale, acting through its New York Bank (Helaba or the Bank). The Letter of Credit in an amount equal to \$37,589 enables the City to pay at maturity the principal amount of the Notes plus up to 270 days interest.

The City sold \$32,700 in Sales Tax Revenue Commercial Paper Notes in fiscal year 2001. As of September 30, 2002, \$20,800 of Commercial Paper notes are outstanding with interest rates on the notes between 1.200% and 3.450% and with various maturities ranging from 1 to 131 days. The aforementioned Commercial Paper Notes have been classified as long-term in accordance with the refinancing terms of the revolving credit agreement identified above.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

The future minimum lease obligations as of December 31, 2001, are as follows:

San Antonio Water System Minimum Lease Obligation			
Year Ending December 31,	Principal	Interest	Total Annual Requirements
2002	\$ 306	\$ 35	\$ 341
2003	263	78	341
2004	124	8	132
2005	75	1	76
Total	\$ 768	\$ 122	\$ 890

Note Payable

During fiscal year 2000, a contract was entered into between SAWS and CPS whereby SAWS acquired water rights from certain CPS properties. A note was signed for 116 payments of \$40 at an interest rate of 7.5%. Total payments on this note are \$4,640 including interest. The liability as of December 31, 2001 is included in the statement of net assets for both the current portion of \$289 and long-term amount of \$2,389. The annual principal and interest requirements are as follows:

San Antonio Water System Principal and Interest Requirements			
Year Ending December 31,	Principal	Interest	Total Annual Requirements
2002	\$ 289	\$ 191	\$ 480
2003	311	169	480
2004	336	144	480
2005	362	118	480
2006	390	90	480
2007	420	60	480
2008	452	28	480
2009	118	2	120
Total	\$ 2,678	\$ 802	\$ 3,480

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(amounts are expressed in thousands)

7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

A. Primary Government (City) (Continued)

Revolving Line of Credit

The City uses a revolving line of credit for the Housing Asset Recovery Program. The line of credit is used to preserve housing stock and to revitalize neighborhoods by renovating and rehabilitating property owned by the City that is acquired through various programs (i.e. flood buyouts, facilities expansion, etc.). The City intends to finance their repayment with the proceeds received from the sale of the renovated houses. The amount of the line of credit is \$1,250, of which \$331 was outstanding as of September 30, 2002.

Revolving Line of Credit			
Beginning	Increases		Ending
Balance	Decreases		Balance
\$ 0	\$ 331	\$ 0	\$ 331

B. City Public Service (CPS)

Commercial Paper

In October 1988, the City Council adopted an ordinance authorizing the issuance of up to \$300,000 in Tax-Exempt Commercial Paper (TECP). This ordinance as amended provides for funding to assist in the financing of eligible projects, in an aggregate amount not to exceed \$450,000. Eligible projects include fuel acquisition and capital improvements to the utility systems (the Systems), and to refinance or refund any outstanding obligations which are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The program's scheduled maximum maturities will not extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed \$350,000 for the purpose of paying amounts due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 2003, and may be renewed for additional periods.

To date, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of the New Series Bonds and any to be issued in the future.

CPS sold \$97,200 of TECP in fiscal year 2002 and \$118,000 in 2001, of which \$123,600 has been used to fund construction expenditures through January 2002. As of January 31, 2002, \$350,000 in principal amount was outstanding, with a weighted average interest rate of approximately 1.36% and an average life outstanding of approximately 80 days.

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(amounts are expressed in thousands)

7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

C. San Antonio Water System (SAWS)

Commercial Paper

On January 11, 2001, the City Council authorized SAWS to expand the tax-exempt short-term borrowing program (the "Commercial Paper Program") from \$175,000 to \$350,000. The purpose of the Commercial Paper Program is to provide funds for the interim financing for the increased level of future expenditures on water resource projects and scheduled maturities of the short-term borrowing under the Commercial Paper Program may not extend past May 14, 2032. The City has covenanted in the ordinance authorizing the Commercial Paper Program (the "Note Ordinance") to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing sufficient to pay the principal of the Commercial Paper Program. The credit facility is maintained under the terms of a revolving credit agreement.

To further support the Commercial Paper Program, on June 2, 2001, the City entered into agreements with the following:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Westdeutsche Landesbank Girozentrale and Landesbank Baden Württemberg.
- Issuing and Paying Agency Agreement with Bank One, National Association Chicago, Illinois.

The borrowings under the Commercial Paper Program are equally and ratably secured by and are payable from (i) proceeds from the sale of bonds or additional borrowing under the Commercial Paper Program and (ii) borrowing under and pursuant to the revolving Credit Agreement.

Commercial paper notes of \$185,000 are outstanding as of December 31, 2001. The proceeds of the notes have been used solely for the financing of capital improvements of SAWS. The tax-exempt commercial paper notes have been classified as long-term in accordance with the refinancing terms of the Credit Agreement and management's intention to continue the remarketing of the tax-exempt commercial paper notes to maintain a portion of its debt in variable rates. Interest rates on the notes outstanding at year-end range from 1.45% to 2.50% and from 34 to 153 days in maturity. The outstanding notes at December 31, 2001 had an average rate of 1.82% and averaged 85 days to maturity.

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(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The City provides retirement benefits for all eligible full-time Fire and Police employees through the Pension Fund. Employees who terminate having five to twenty years of service may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for twenty years or more shall, upon application to the Board of Trustees of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest three years of pay of the last five years of service. The retirement annuity for employees retiring after September 30, 2001 is computed at the rate of 2.25% of this average for each of the first twenty years of service, plus 4.5% of the member's average total salary for each of the next seven years, plus three percent of the member's average total salary for each of the next three years of service, plus 0.5% of the member's average total salary for each of the next four years of service, with fractional years of service prorated based on full months served as a contributing member. In making the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary.

An employee with twenty years and one month of actual service credit may at the time of retirement elect a Backward Deferred Retirement Option Plan (Back DROP). The Back DROP election results in a lump sum payment equal to the number of full months of service elected by an employee that does not exceed the lesser of the number of months of service credit the employee had in excess of twenty years or thirty-six months and a reduced annuity payment.

There is also a provision for a 13th and a 14th pension check. The Board may authorize the disbursement of a 13th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. The Board may authorize a 14th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The 13th and 14th pension checks are paid to each retiree and beneficiary receiving a pension at the time of the disbursement and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year).

If service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, based on the same number of years of the member's pay as used to compute normal retirement benefits. If a member is killed in the line of duty, the member's surviving spouse and dependent children are entitled to a pension based upon actual base salary at time of death.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Contribution requirements of plan members and the City are established and may be amended by State statute. In the current year, the City contributed 24.64% of covered payroll and employees contributed 12.32% of covered payroll. The employer's required contribution of \$43,615 and the employee's required contribution of \$21,808 were made to the Pension Fund. (See summary of contribution information at Part A of this footnote).

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS

A. General Plan Information

The City of San Antonio, SAWS and CPS participate in several contributory retirement plans. These are funded plans covering substantial full-time employees. Payroll and contribution information as of the year end for each entity is presented below:

Contributory Pension and Retirement Plans					
Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution
City	Fire and Police Pension Fund	Single Employer Defined Benefit Plan	\$ 176,508	\$ 21,808	\$ 43,615
	Texas Municipal Retirement System (TMRS)	Non-Traditional Defined Contribution Agent Plan	199,112	11,947	23,147
SAWS	Texas Municipal Retirement System (TMRS)	Non-Traditional Defined Contribution Agent Plan	51,958	1,008	1,044
	PMLIC Connect	Agent Multiple Employer Defined Benefit Plan	51,050		2,969
CPS	CTS All Employees Plan	Single Employer Defined Benefit Plan	165,314	7,981	1,048
Total					
					9,029

¹ Seven Months ended December 31, 2001
² Full year ended December 31, 2001
³ Fiscal year ended January 31, 2002

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Effective October 1, 2001, in addition to the changes for credited service and the 14th check as mentioned above, other new provisions include allowing the surviving spouse of an active member to elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a Back DROP election made by a retiring member, increasing the maximum benefit for surviving spouses and dependent children from a 26 to 27 year pension, and increasing cost-of-living increases for all retirees who retired between August 30, 1971 and October 1, 1991.

For the year ended September 30, 2002, the City's annual pension cost of \$43,615 for the Pension Fund was equal to the City's required and actual contributions. The annual required contribution was determined as part of the October 2001 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increase of 5.5% per year. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The Pension Fund's unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 2001 was 27.04 years.

Texas Municipal Retirement System

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to city employees. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or calling (512) 476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 5 years, but must leave accumulated contributions in the plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Texas Municipal Retirement System (Continued)

The plan provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contribution requirements are actuarially determined by TMRS's actuary (See summary of TMRS Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the City's employees is 6% and the matching percent is currently 11.63%, both as adopted by the governing body of the City. (See summary of contribution information in Part A of this footnote). Under the state law governing TMRS, the Employer's Contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's twenty-five year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is being amortized over a constant twenty-five year period as a level percent of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

C. San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System, a contract with Principal Mutual Life Insurance Company, and Social Security.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

1. 20 Years of credited service regardless of age, or
2. 25 Years of credited service and at least age 50, or
3. 10 Years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of credited service. Average Compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31, out of the latest ten compensation years prior to normal retirement date which gives the highest average.

The normal retirement benefit under the Principal Mutual contract is equal to:

1. 1.2% of the Average Compensation, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.375% of the Average Compensation, times years of credited service in excess of 35 years.

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits. The following information related to the Texas Municipal Retirement System and Principal Mutual Life Insurance has been prepared as of January 1, 2001.

Texas Municipal Retirement System

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The TMRS was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas, and is administered in accordance with the Texas Municipal Retirement System Act. It is the opinion of the TMRS management that the plans in the TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the SAWS-financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, 200%) of the employee's accumulated contributions. In addition, SAWS may grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and SAWS matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages of 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions and contribution requirements are adopted by SAWS within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contribution requirements are actuarially determined by TMRS's Actuary (See Summary of TMRS's Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the employees is 3% of salary, and SAWS matching rate approximates 100% of the employee rate, both as adopted by the SAWS. Under the state law governing TMRS, SAWS' contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to SAWS' matching percent, which are the obligation of SAWS as of an employee's retirement date not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of SAWS to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (Continued)

When SAWS' periodically adopts updated service credits and increases the annuities in effect, the increased unfunded actuarial liability is to be amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is to be amortized over the twenty-five year period, which began January 1, 1998. The unit credit actuarial cost method is used for determining SAWS contribution rate.

Contributions are made monthly by both the employees and SAWS. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. Significant assumptions used in the actuarial valuation of annual required contributions include a rate of return on the investment of present and future assets of 8.0% per year. Additionally, there is no need to project salary increases since the benefit credits earned for service to date are not dependent on future salaries. Likewise, inflation and cost-of-living adjustments are not accounted for in the actuarial study. Assets are valued at amortized cost.

Principal Mutual Life Insurance Company

The contract with Principal Mutual Life Insurance Company (PMLIC) serves as a supplement to the TMRS and Social Security benefits. SAWS' covered payroll at January 1, 2001 under this contract was \$51,050.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit plan. Employees are eligible to participate in the plan on January 1 of the calendar year following date of hire. An employee covered by the plan may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. The plan allows an employee to accrue vesting benefits as follows:

Years of Service	Vested Percentage
Less than 5	0%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

Benefits for retired employees are fully guaranteed at retirement. The pension plans unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Life Insurance Co. The plan provisions and contribution requirements are governed by SAWS which may amend plan provisions and is responsible for the management of plan assets.

Significant assumptions used by PMLIC's actuary to compute the actuarially determined contribution requirements include: (a) a rate of return on the investment of present and future assets of 8.5% per year, (b) salary scale from Table S-5 of the Actuary's Pension Handbook, plus 3.4%, and (c) plan expenses according to the expense scales of the Service Agreements.

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Principal Mutual Life Insurance Company (Continued)

The PMLIC contract funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method spreads the total cost of the projected pension benefits for each employee evenly from the date the employee is first eligible for the plan to the employee's assumed retirement date. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. Thus, as of the plan effective date, there are some accumulated Normal Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by the System. Active members are not required to contribute to the plan. Any obligation with respect to the pension plan shall be paid by the System. The actuarial valuation, which was performed for the plan year, ended December 31, 2001 reflects an unfunded frozen initial liability of \$8,884.

The PMLIC issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Life Insurance Company, Pension Diversified Retirement Services, Des Moines, Iowa 50392-0001 or by calling (515) 247-5111.

D. City Public Service (CPS)

All Employee Plan

The CPS Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service and to those employees who are ages 55 or older with at least 10 years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service, or age 62 with less than 25 years of service.

The Plan and contribution requirements are sponsored by and may be amended by CPS, acting by and through the General Manager and Chief Executive Officer of CPS. The Plan assets are held in a separate trust that is periodically audited and which financial statements include historical trend information. Additional information may be obtained by writing the Employee Benefits Division of CPS, P.O. Box 1771, San Antonio, Texas 78296 or by calling (210) 978-2484.

Funding levels are established through annual actuarial evaluations and recommendations of an Administrative/Investment Committee, using both employee and employer contributions. Participating employees contribute 5% of their total compensation and are fully vested after completing 7 years of credited service or at age 40. The balance of contributions made amounted to 0.6% and is the responsibility of CPS, considering actuarial information, budgetary compliance, and the need to amend the Plan with legal requirements. (See Summary of Contribution Information at Part A of this footnote).

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

D. City Public Service (CPS) (Continued)

All Employee Plan (Continued)

As calculated under GASB Statement No. 27, CPS' annual pension cost and net pension obligation for the fiscal year ended January 31, 2002 were \$654 and \$0 respectively. The annual required contribution was determined as part of the January 1, 2001 actuarial valuation using (a) the five-year smoothed market method for asset valuation, (b) the projected unit credit for pension cost, and (c) the level dollar open for amortization. The remaining amortization period is 9.89 years and is calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 2001 actuarial valuation include (a) a rate of return on the investment of present and future assets of 8.5 % per year compounded annually, (b) projected salary increases averaging 5.0 %, and (c) post-retirement cost-of-living increases of 2.0 %. The projected salary increases include an inflation rate of 4.0 %.

E. Three Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation as required by GASB Statement No. 27.

Three Year Trend Information									
Pension Plan	Fiscal Year	Annual Required Contribution (ABC)	Interest on Net Pension Obligation (NPO)	Adjustment To ABC	Annual Pension Cost (APC)	Contributions In relation to ABC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End Of Year
Fire and Police Pension- City of San Antonio	2000	\$ 40,238	\$ 0	\$ 0	\$ 40,238	\$ 0	\$ 0	\$ 0	100%
	2001	42,065			42,065				100%
	2002	43,615			43,615				100%
TMRS- City of San Antonio	2000	19,352			19,352				100%
	2001	21,610			21,610				100%
	2002	23,147			23,147				100%
CPS All Employee Plan ¹	2000	12,288	42	(490)	11,840	(12,231)	(391)	490	103%
	2001	5,397	8	(13)	5,392	(5,392)		99	100%
	2002	660	8	(14)	654	(753)	(99)	99	115%
TMRS- SAWS ²	1999	1,576			1,576				100%
	2000	1,593			1,593				100%
	2001	1,044			1,044				100%
PMLIC- SAWS ³	1999	4,753			4,753				100%
	2000	2,770			2,770				100%
	2001	2,969			2,969				100%

1 Fiscal year ended January 31, 2002

2 Seven months ended December 31, 2001

3 Plan year ended December 31, 2001

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(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

F. Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation by the Texas Municipal Retirement System's (TMRS) actuary are provided in the table below for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Investment Return	8%
Inflation Rate	None
Projected Salary Increases	None
Post Retirement Benefit Increases	None
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years - Open Period
Asset Valuation Method	Amortized Cost

Location of Schedules of Funding Progress

The Schedule of Funding Progress is located in the "Required Supplementary Information" section of this report. The schedules are designed to provide information about each entity's progress in accumulating sufficient assets to pay benefits due.

9. POSTEMPLOYMENT RETIREMENT BENEFITS

A. Primary Government (City)

In addition to the pension benefits discussed in Note 8, the City provides all their retired employees with certain health benefits under two post-employment benefit programs. The first program is a health insurance plan, which provides benefits for all non-uniformed City retirees and for all, pre-October 1, 1989, uniformed (fire and police) retirees. Currently, there are 6,650 active civilian employees who may become eligible in the future. Employees become eligible for the program when they reach eligibility for the TMRS Pension Plan, discussed in Note 8. At September 30, 2002, there were 1,405 retirees participating in the program which covers eligible expenses at eighty percent after a deductible of \$200 (single)/\$400 (family) for non-Medicare and \$125/\$250 for Medicare retirees. The cost of the program is reviewed annually, and actuarially determined costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis shared on a 67% City - 33% retiree cost allocation. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands. For retirees, total expenses for the year were \$5,704. For the year ended September 30, 2002, total contributions were as follows:

City	\$ 3,305
Employees	1,750
TOTAL	\$ 5,055

The second post-employment benefit program of the City provides retirement health care benefits for eligible Fire and Police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). The Fund was originally established as a fund of the City pursuant to the respective Fire and Police collective bargaining agreements to provide postemployment health benefits for San Antonio Fire Fighters and Police Officers who retired on or after October 1, 1989. Effective October 1, 1997, the Fund was created as a separate and distinct statutory trust. The Fund is governed by a nine member Board of Trustees comprised of the Mayor, two City Councilmembers, two active police officers, two active fire fighters, a retiree representative of the Fire Department, and a retiree representative of the Police Department. The Board of Trustees is responsible for the investment of the assets of the Fund. Contribution and benefit levels are determined by the respective collective bargaining agreements with the Fire and Police Associations.

(amounts are expressed in thousands)

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

The benefits of this plan are financed on a prefunded basis. The City currently makes contributions on behalf of 3,363 active Fire Fighters and Police Officers who may be eligible for benefits under this plan in the future. The benefits of the plan are not available until the employee has completed twenty years of service and the plan is currently providing benefits to 872 eligible retirees. The Program reimburses 80 percent of the amount of eligible claims for standard medical costs and 100 percent for hospitalization costs incurred by the retiree and their eligible dependents. Based on the Police contract, the City contributed 9.4% of base pay plus longevity of all eligible police officers and each police officer contributed \$20 per month. Based on the Fire contract, the City contributed 9.4% of base pay plus longevity and fire fighters contributed \$20 per month, during the period from January 2001 to May 2002. Beginning in June 2002, the City contributed 8.92% of base pay plus longevity and active fire fighters contributed \$40 per month. Please note the number of firefighters and police officers, retirees, and monthly contribution rates in this section are not expressed in thousands. For the year ended September 30, 2002, total expenses for retired employees was \$7,007 and total contributions were as follows:

City	\$ 15,354
Employees and Retiree Dependent Premiums	1,222
TOTAL	\$ 16,576

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Fund and whether the existing financing of the Fund can be reasonably expected to be adequate over a long period of time. The Board of Trustees had an actuarial valuation performed as of July 1, 2000 and the results of that study indicated that based on employer contributions of 9.4% of covered payroll (base pay plus longevity) plus the employee monthly contributions of \$20, the unfunded liability of the Fund could be amortized over a 25 year period. Subsequently, the Board of Trustees engaged another actuarial firm to perform an actuarial valuation of the Fund as of October 1, 2001. The actuarial report was issued on May 20, 2002 and the results of this report indicated that the employer and employee contributions mentioned previously were not sufficient to amortize the unfunded liability. Additionally, the study recommended a contribution rate of 13.94% of covered payroll plus the employee monthly contributions of \$20 to amortize the unfunded liability of the Fund over a 40 year period. Based on this rate, the total contribution to the Fund would be required to increase from an estimated \$17,200 to \$25,100, an increase of \$7,900 beginning October 1, 2002.

Since then, the Board of Trustees has had another actuarial valuation of the Fund initiated with a valuation date of October 1, 2002. The results of the draft study reflect a recommended contribution rate of 19.52% of covered payroll in addition to employee contributions of \$70 monthly. This would result in an increase in the total annual contribution to the Fund of an estimated \$20,000 beginning October 1, 2003. The actuary also indicated in their report that a phase-in of increased contributions over a period of time such as ten years would be actuarially acceptable. The recommended funding increase shown in both the 2002 and 2003 studies is primarily attributable to the actuarial assumptions for current benefit health claims costs and future increases in health benefit claims costs.

While the results of both the 2002 and 2003 studies reflect significant changes in contribution levels, the actuarial reports also state that the Fund does not have a short term financing problem. As of September 30, 2002, net assets available for postemployment benefits were \$83,600 while benefits payments for the fiscal year ended September 30, 2002 were \$7,000. As noted above, contribution and benefit levels are established pursuant to the collective bargaining agreements. The current agreement with the Fire Association will expire September 30, 2005 and has an evergreen clause through September 30, 2015. This agreement was negotiated prior to the issuance of the actuarial valuation as of October 1, 2001, however, the agreement does contain a limited reopener related to contributions to the Fund. The City's current agreement with the Police Association expired on September 30, 2002 but has an evergreen clause through September 30, 2012. The City and Police Officers Association have been in negotiations, however, have been unable to reach terms for a final agreement.

(amounts are expressed in thousands)

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

The City anticipates it will resume negotiations with the Police Officers Association in June 2003 and will seek to include a comprehensive framework for a long-term solution for the Fund. Additionally, due to the differences in the results of the studies from July 2000 to October 2002, the City in conjunction with both the Fire and Police Associations anticipate having an independent review and valuation performed of the Fund by another actuarial firm.

B. City Public Service (CPS)

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Plan assets are held as part of CPS' Group Health and Life Insurance Plans and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The Plans may be amended by CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs.

These costs approximated \$3,400 for 2002. CPS reimbursed certain retirees and their spouses enrolled in Medicare Part B a percentage of the monthly premium, which totaled \$207 for fiscal year 2002.

Retired employees and covered dependents contributed \$1,300 for their health care and life insurance benefits in fiscal year 2002. There were approximately 2,098 retirees and covered dependents eligible for health care and life insurance benefits. Please note the number of retirees is not stated in thousands.

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1, 2001 valuations are \$62,500 for health and \$16,900 for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be \$44,500 for health, \$4,900 for life insurance, and \$2,500 for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled \$6,500 in 2002. For the health care plan, the actuarial cost method used is the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 2001 actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5% per year for the health, life, and disability plans, (b) projected salary increases for the plans ranging from 4.5% to 12.0% depending on age for base and other salaries, and (c) medical cost increases projected at 8% for 2002.

C. San Antonio Water System (SAWS)

SAWS provides certain health care and life insurance benefits for retired employees. Substantially all full-time employees who retire from SAWS may become eligible for those benefits. On December 31, 2001, there were 368 retirees with life insurance and 316 retirees with medical coverage. Please note the numbers of retirees are not stated in thousands.

SAWS provides medical and life insurance for retirees and recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance. For the seven months ending December 31, 2001, premiums for medical insurance and life insurance amounted to \$1,573 and \$29, respectively. Those and similar benefits for active employees are provided through insurance companies.

(amounts are expressed in thousands)

10. CPS SOUTH TEXAS PROJECT (STP)

Joint Operations

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are Reliant Energy, formerly known as HL&P, Central Power and Light Company (CPL), and the City of Austin. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28% ownership in the STP represents 700 megawatts of plant capacity. At January 31, 2002, CPS' investment in the STP utility plant was approximately \$1,700,000, net of accumulated depreciation.

Effective November 17, 1997, the Participation Agreement among the owners of STP was Amended and Restated and the STP Nuclear Operating Company, a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STP Nuclear Operating Company.

Nuclear Insurance

The Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities, was in effect until August 1, 2002. The limit of liability for licensees of nuclear power plants is \$9,340,000 per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$83,900 (amount may be adjusted for inflation) for each licensed reactor, but not more than \$10,000 per reactor for each nuclear incident in any one year. CPS and each of the other participants of STP are subject to such assessments, and all participants have agreed that any such assessments will be borne on the basis of their respective ownership interests in STP. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of \$400,000 for the nuclear industry as a whole, provides protection from nuclear-related claims.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of \$1,060,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain on-site property damage insurance in the amount of \$2,750,000 of nuclear property insurance, which is above the legally required amount of \$1,060,000, but is less than the total amount available for such losses. The \$2,750,000 of nuclear property insurance is composed of \$500,000 for primary property damage insurance and a layer of excess property damage insurance that would contribute \$2,250,000 of additional coverage that is subject to a retrospective assessment from each electric utility which is a member of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at the nuclear plant of any utility insured by NEIL exceed the accumulated funds available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is \$24,800 during any one policy year.

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(amounts are expressed in thousands)

10. CPS SOUTH TEXAS PROJECT (STP) (Continued)

Nuclear Decommissioning

CPS, together with the owners of the STP, filed with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that this cost estimate would be reviewed and updated periodically as it could change by a material amount. In 1994, the owners did conduct a review of decommissioning costs. The results showed that CPS' share of decommissioning costs is now approximately \$270,000 in 1994 dollars, which also exceeded NRC minimum requirements. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately \$311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust Assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2002, CPS has accumulated approximately \$145,900 of funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amounts of \$61,400 at December 31, 2001. Based upon the 1998 and 1994 decommissioning cost study, the annual levelized funding into the trust of \$15,900 for 2002 was expensed by CPS.

11. COMMITMENTS AND CONTINGENCIES

A. Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2002. Grants awarded by federal, state and other governmental agencies but not yet earned nor received in cash as of September 30, 2002 were \$155,457.

Capital Improvement Program

The City will be undertaking various capital improvements to its airport system during fiscal year 2003. The estimated cost of these improvements is \$82,287. Approximately \$32,989 of the total will be funded by federal grants.

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(amounts are expressed in thousands)

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Litigation

The City is involved in various lawsuits related to alleged personal and property damages, wrongful death, breach of contract, various claims from contractors for additional amounts under construction contracts, property tax assessments, environmental matters, class action and promotional practices, and discrimination cases. The Office of the City Attorney estimates the probable liability for these suits will approximate \$10,500 which is included as a component of the reserve for claims liability in the amount of \$16,179. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The City makes significant estimates in determining the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Self-Insurance Funds are adequate to cover losses for which the City may be liable. It is not determinable whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the government-wide financial statements.

Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This is a nuisance case alleging that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in Plaintiff's contracting acute lymphoblastic leukemia. Although the trial court has entered against the City a judgment of approximately \$20,000, the City believes that \$19,980 of such sum (\$10,000 in exemplary damages and \$9,980 in personal injury damages) is not recoverable by the Plaintiff under a nuisance theory. Even if recoverable, the City believes that damages are capped at \$250 under the Texas Tort Claims Act. The City is appealing the judgment.

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Non-compliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual and in the governmental fund type when matured.

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(amounts are expressed in thousands)

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Leases

The City leases City-owned property to others which consists of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. Total rental revenue on operating leases for fiscal year ended September 30, 2002 was \$3.9 million. As of September 30, 2002, the leases provide for the following future minimum rentals:

	Leases Receivable			
	Governmental Activities	Aviation	Parking	Total
Fiscal year ending September 30:				
2003	\$ 1,950	\$ 15,106	\$ 167	\$ 17,223
2004	1,897	14,275	133	16,305
2005	1,653	14,046	42	15,741
2006	1,428	13,260		14,688
2007	889	1,866		2,755
2008-2012	2,824	6,496		9,320
2013-2017	2,616	4,332		6,948
2018-2022	1,721	886		2,607
2023-2027	750	326		1,076
2028-2032	750	27		777
2033-2037	525			525
2038-2042	467			467
Future Minimum Lease Rentals	\$ 17,470	\$ 70,620	\$ 342	\$ 88,432

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(amounts are expressed in thousands)

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill which immediately stopped accepting solid waste. Subsequent to landfill closure, Federal and State laws required the City to incur certain postclosure care costs over a period of thirty years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at \$3,800. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a thirty year period. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", the estimated postclosure cost of \$3,800 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Environmental Services Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations.

Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year ended September 30, 2002 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of \$1,083. This represents a reduction of \$41 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

TCEQ Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission (TNRCC), related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City and the new permittee has provided adequate financial assurance for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide \$1,000 of financial assurance related to the underground storage facilities.

Brooks City-Base - Electric and Gas Utilities

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the "Air Force") and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks. On July 22nd the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology & Business Park, a facility which will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

As part of the conveyance, the electric and gas utilities were transferred to City Public Service (CPS), the City's utility. The electric and gas utility systems' infrastructure at Brooks are deficient and require extensive upgrades and improvements. Pursuant to the transfer, the Air Force, BDA, and CPS have committed to make certain improvements and upgrades to the electric and gas utility over a 20 year period. Funding for these improvements include \$3,400 from the Air Force and \$6,300 from BDA and CPS each, respectively for a total of \$16,000.

(amounts are expressed in thousands)

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Brooks City-Base—Electric and Gas Utilities (Continued)

With respect to BDA's obligation of \$6,300, the City has agreed, under certain circumstances and if necessary, to assist BDA in funding its obligation. The City has agreed to contribute to BDA on an annual basis an amount equivalent to the incremental increase in the City's payment from CPS derived from Brooks. The City, as the owner of CPS, receives 14% of CPS' gross revenues and this amount represents additional resources available to the City as a result of its increased payment from CPS derived at Brooks. The first payment, if necessary, is due in January 2004 is estimated at \$112. Over the 20 year period, the City's annual payments will not exceed \$3,400. In the event BDA has exhausted all of its available resources and has been unable to fulfill its obligation of \$6,300 by the end of the 20 year term, the City has agreed in good faith to utilize all of its funding options to enable BDA to satisfy its obligation.

Alamodome Soil Remediation

The City has taken an aggressive approach to dealing with environmental issues resulting from the construction of the Alamodome, a multi-purpose domed facility. It is working in conjunction with the Texas Commission on Environmental Quality (TCEQ) on the continued development and implementation of a remediation plan that addresses both on and off-site locations that may contain contaminated soil. As of September 30, 2002, the City has expended approximately \$13,402 related to Alamodome soil remediation efforts, inclusive of the supplemental environmental projects, and estimates the remaining cost for soil remediation to be approximately \$66. In January 1996, TCEQ issued its Executive Director's Preliminary Report assessing a penalty against the City and VIA Metropolitan Transit (VIA) along with certain technical recommendations for alleged violations in the handling of contaminated soils at the Alamodome site. On February 12, 1997, the City and TCEQ entered into an Agreed Order relating to enforcement actions taken by the Commission against the City and VIA which provided for a reduced penalty amount because of positive actions taken by the City to initiate corrective actions in advance of the Agreed Order.

Under the Agreed Order, the Commission would also defer the remaining portion of the reduced fine upon successful completion, by the City, of certain supplemental environmental projects in the total amount of \$628. The City, under separate agreement with VIA, would assume responsibility for the remediation of the remaining sites, with VIA contributing \$350 towards these efforts.

The City to date has completed the Supplemental Environmental Projects as identified in the Agreed Order and has received concurrence from the TCEQ that these projects were successfully completed. Additionally, nine of the ten sites that require remedial activity under the Agreed Order have been completed. The TCEQ has provided closure letters for all of these sites. Final remediation is scheduled for fiscal year 2003 for the remaining site.

B. City Public Service (CPS)

Other

Purchase and construction commitments amounted to approximately \$2,600,000 at January 31, 2002. This amount includes approximately \$81,700 that is expected to be paid for natural gas purchases to be made under the contracts currently in effect through June 2002; the actual amount to be paid will be dependent upon CPS' actual requirements during the contract period and the price of gas. Commitments also include \$78,100 for pipeline quality gas to be produced from the City's "Nelson Gardens" landfill under the contract which is currently in effect through the year 2017. Also included is \$65,000 for coal purchases through December 2003, \$331,500 for coal transportation through

(amounts are expressed in thousands)

11. COMMITMENTS AND CONTINGENCIES (Continued)

B. City Public Service (CPS) (Continued)

December 2014, and \$3,000 for treated cooling water through 2005, based upon the minimum firm commitment under these contracts.

CPS has also committed to purchase \$289,400 in wind power and \$40,000 in additional natural gas requirements; \$73,800 in railcars; \$31,900 for generation plant maintenance services; and \$44,600 million for distribution system construction and maintenance.

Additional purchase commitments at January 31, 2002, which are related to STP include approximately \$335,500 for raw uranium and associated fabrication and conversion services. This amount represents services that will be needed for future refueling through the year 2028.

The Public Utility Commission of Texas (PUC) has promulgated new rules designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule (Rule) mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on the amount of load served by each utility. CPS' cost for calendar year 2001 were approximately \$5,600. The estimated cost for calendar year 2002 is approximately \$10,800. The decrease in amounts paid for calendar year 2001 is a result of CPS' success in updating the CPS transmission cost of service approved by the PUC. This new cost became effective in January 2001. In March 2000, CPS began recovering these costs from customers.

Joint Operations Agreement

A 1997 Joint Operations Agreement resulted from the litigation settlement with Reliant Energy, formerly known as Houston Lighting & Power, over its management of STP during the construction and early operating periods. The Joint Operating Agreement is an arrangement to jointly dispatch CPS' and Reliant's generating plants to take advantage of the most efficient plants and favorable fuel prices of each utility. CPS receives, in monthly cash payments, ninety percent of the savings realized from the jointly operated systems. This joint operation agreement must result in at least \$10,000 in cumulative savings per year to CPS, or Reliant will make up the difference in cash. A similar payment will be made by Reliant to ensure benefits to CPS of \$150,000 in savings during the ten-year life of this agreement. In April 2001, Reliant met the Joint Operations Agreement of \$150 million cumulative savings obligation.

In August 2001, the Joint Operations Agreement was extended until 2009. Under the extended agreement, CPS will receive the ninety percent of the combined savings achieved under the joint dispatching until the total benefit to CPS reaches \$200 million after which the benefit will be shared equally. As of January 31, 2002, CPS' total cumulative savings were \$190,300.

Litigation

Additionally, in the normal course of business, CPS is involved in other legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals and discrimination cases. Also, CPS' power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

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(amounts are expressed in thousands)

11. COMMITMENTS AND CONTINGENCIES (Continued)

C. San Antonio Water System (SAWS)

Other

SAWS is committed under various contracts for completion of construction or acquisition of utility plants totaling approximately \$93,800 as of December 31, 2001. Funding of this amount will come from available revenues of SAWS, contributions from developers, and restricted assets.

Litigation

SAWS is the subject of various claims and litigation which have risen in the ordinary course of its operations. Management, in consultation with legal counsel, is of the opinion that SAWS' liabilities in these cases, if decided adversely to SAWS, will not be material.

12. RISK FINANCING

A. Primary Government (City)

Property and Casualty Liability

At September 30, 2002, the City has excess insurance coverage through North River Insurance Company for liability. The blanket policy provides general and auto liability along with police professional errors and omissions and EMS Medical Malpractice, and Civil Rights and Employee Benefits Liability Coverage. Allianz Insurance Company provides property coverage on the City's building and contents inventory. The City utilizes a third party administrator for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Internal Service Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported, and Departments are assessed premiums to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements did not exceed insurance coverage for each of the past three years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee benefit program including coverage for medical, dental and life insurance, vision, dependent care reimbursement accounts and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Self-Insurance Employee Benefits Internal Service Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

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(amounts are expressed in thousands)

12. RISK FINANCING

A. Primary Government (City) (Continued)

Workers' Compensation

The City self-insures for Workers' Compensation. The City is a member of the Texas Municipal League (TML) Workers' Compensation Joint Insurance Fund, an unincorporated association of political subdivisions of the State of Texas. The TML Workers' Compensation Joint Insurance Fund is not intended to operate as an insurance company, but rather is intended to be a contracting mechanism which the City as a member utilizes to administer self-insurance workers' compensation benefits to its employees for claims that occurred prior to September 30, 1986. The City also utilizes third party administrators for the handling of administration, investigation, and adjustment of workers' compensation claims that occurred after October 1, 1986. All loss contingencies, including claims incurred but not reported, if any, are recorded in the City's Self-Insurance Workers' Compensation Internal Service Fund and City departments are assessed premiums to cover expenditures. As of September 30, 2002, the City has excess workers' compensation coverage through the North River Insurance Company. Claims settlements did not exceed insurance coverage for each of the past three years.

Unemployment Compensation Program

The Unemployment Compensation Program of the Self-Insurance Internal Service Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year end, claims were being administered internally by the City and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

Extended Sick Leave Program

The Extended Sick Leave Program of the Self-Insurance Internal Service Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Self-Insurance Employee Wellness Program Internal Service Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program was established to offer City employees short term mental health, marital, and financial counseling, as well as substance abuse intake and assessment. The Program was funded by a transfer from the Workers' Compensation Fund.

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(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

B. City Public Service (CPS)

CPS is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS purchases commercial liability and property insurance coverages to provide protection in event of large/catastrophic claims. CPS performs actuarial studies periodically to determine its insurance retentions. An actuarial study was last performed in 2001.

In addition, CPS is exposed to risks of loss due to death of, and injuries to, or illness of, its employees. CPS makes payments to external trusts to cover the claims under the related plans. At January 31, 2002, CPS accumulated approximately \$131,700 in these external trusts. The trust accounts and related claims liabilities are included in CPS' financial statements. CPS has recorded \$25,500 of expense related to these plans for the year ended January 31, 2002.

Based upon the guidance of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the following information is provided regarding the changes in the insurance reserves for property, and employee and public liability claims for the years ended January 31:

City Public Service Schedule of Changes in Claims Liability				
Fund	Liability Balance February 1,	Claims & Adjustments	Claims Payments	Liability Balance January 31,
<u>Property Insurance</u>				
Fiscal Year 2001	10,158	406	(620)	9,944
Fiscal Year 2002	9,944	7	(1,327)	8,624
<u>Employee & Public Liability Claims</u>				
Fiscal Year 2001	5,603	3,117	(2,880)	5,840
Fiscal Year 2002	5,840	2,056	(2,888)	5,008
<u>Employee Health & Welfare Claims</u>				
Fiscal Year 2001	0	0	0	0
Fiscal Year 2002	0	28,022	(24,381)	3,641

The employee health and welfare plan assets are segregated from CPS's assets. They are separately managed by committee whose members are appointed by the CPS General Manager and CEO. These plans have separate financial statements for calendar year 2001. These separately audited financial statements are available upon request from CPS.

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(amounts are expressed in thousands)

12. RISK FINANCING

A. Primary Government (City) (Continued)

Claims Liability

The liability for the Employees Benefits Program is based on the estimated aggregate amount outstanding at the balance sheet date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the balance sheet date and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims which have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability as management of the City feel it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for the Insurance Reserve and Workers' Compensation Programs is based on an undiscounted rate.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Benefits, and Workers' Compensation Programs for the year ended September 30, 2002.

Schedule of Changes in Claims Liability				
Fund	Liability October 1,	Change in Estimates	Claims & Adjustments	Claims Payments
<u>Insurance Reserve</u>				
Fiscal Year 2001	\$ 18,531	\$	6,434	6,434
Fiscal Year 2002	18,531	(2,352)	6,285	(6,285)
<u>Employee Benefits</u>				
Fiscal Year 2001	\$ 3,415	600	33,638	(33,638)
Fiscal Year 2002	4,015	1,351	38,980	(38,980)
<u>Workers' Compensation</u>				
Fiscal Year 2001	\$ 16,858	1,847	8,685	(8,685)
Fiscal Year 2002	18,705	4,500	9,946	(9,946)

The Workers' Compensation Liability Balance of \$23,205 is comprised of \$20,879 recorded in the Workers' Compensation Fund and the remaining liability of \$2,326 is recorded in Proprietary Funds.

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(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

C. San Antonio Water System (SAWS) (Continued)

San Antonio Water System Schedule of Changes in Claims Liability				
Year Ended	Balance at Beginning of Fiscal Year Liability	Claims & Adjustments	Claims Payments	Balance at End of Fiscal Year Liability
May 31, 2000	\$ 3,652	\$ 714	\$ (1,503)	\$ 2,863
May 31, 2001	\$ 2,863	\$ 913	\$ (1,602)	\$ 2,174
Seven Months ended Dec. 31, 2001	\$ 2,174	\$ 824	\$ (1,269)	\$ 1,729

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(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

B. City Public Service (CPS) (Continued)

In 2002, CPS entered into two short-term natural gas forward contracts to purchase fixed quantities of natural gas at fixed prices for specific months through February 2002. CPS entered into this contract to help plan natural gas costs and to protect itself against an increase in the market price of the commodity during the winter months of 2002 and the early part of next year. At January 31, 2002, market natural gas prices were lower than the contractual prices. As a result, CPS may incur additional natural gas costs of approximately \$2,100 in February 2002 based on the fixed quantities remaining to be purchased. CPS will pass any additional costs through to its customers under the fuel and gas cost adjustment provisions of the rate tariffs.

Natural Gas Forward Contracts:	2002	2001
Volume Remaining in MMBtu	560,000	0
Fixed Price per MMBtu	\$4.55	0
Natural Gas Two Way Collar:		
Volume Remaining in MMBtu	420,000	0
Ceiling Price per MMBtu	\$7.00	0
Floor Price per MMBtu	\$4.14	0
Market Price at January 31	\$2.25	0

Subsequent to year end, the CPS Board of Trustees approved a policy for energy price risk management. The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas Public Funds Investment Act to allow municipal utilities the ability to purchase and sell energy related fuel oil, and electric energy. The policy approved by the Board requires that general operating procedures and guidelines as well as basic oversight and control structures be in place prior to implementation or operation next fiscal year.

C. San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

SAWS is self administered and self-insured for the first \$500 of each worker's compensation and \$250 for general liability, automobile liability, public official's liability and \$100 for pollution legal liability (new coverage during Fiscal Year 2001) claim whereby any claim which cost exceeded the self-insured retention limit would be covered through SAWS' comprehensive commercial insurance program. For the seven months ended December 31, 2001, there were no reductions in insurance coverage from the previous year and there were no claims which exceeded the self-insured retention limit. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

SAWS had recorded a liability in the amount of \$1,729 as of December 31, 2001, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. The claims liability includes medical and rehabilitation costs, which are considered incremental claim adjustment expenses. Changes in the liability amount for the last two fiscal years were:

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(amounts are expressed in thousands)

13. INTERFUND TRANSFERS

The following is a summary of interfund transfers for the City for the year ended September 30, 2002:

Summary Table of Interfund Transfers for the year ended September 30, 2002			
	Transfers From Other Funds	Transfers To Other Funds	
General Fund:			
General Obligation Bonds	\$ 69	\$ 97	
Airport System Fund	176		
Parking Facilities	166	350	
Internal Service Funds	187	3,000	
Nonmajor Governmental Funds	9,966	69,896	
Nonmajor Enterprise Funds	634		
Total General Fund	11,198	73,343	
Debt Service Funds:			
Nonmajor Governmental Funds	22,834		
Total Debt Service Funds	22,834		
General Obligation Bond Funds:			
General Fund	97	69	
Nonmajor Governmental Funds	3,062	219	
Total General Obligation Bond Funds	3,159	288	
Airport System Fund:			
General Fund		176	
Internal Service Funds		138	
Nonmajor Governmental Funds		974	
Total Airport System Fund		1,288	
Parking Facilities Fund:			
General Fund	350	166	
Internal Service Funds		35	
Nonmajor Governmental Funds		105	
Total Parking Facilities Fund	350	306	
Internal Service Funds:			
General Fund	3,000	187	
Airport System	138		
Parking System	35		
Internal Service Funds	1,030	1,030	
Nonmajor Governmental Funds	743	4,125	
Nonmajor Enterprise Funds	193		
Total Internal Service Funds	5,139	5,342	
Nonmajor Governmental Funds:			
General Fund	69,896	9,966	
Debt Service		22,834	
General Obligation Bonds	219	3,062	
Airport System	974		
Parking Facilities	105		
Internal Service Funds	4,125	743	
Nonmajor Governmental Funds	51,308	51,308	
Nonmajor Enterprise Funds	1		
Total Nonmajor Governmental Funds	126,628	87,913	
Nonmajor Enterprise Funds:			
General Fund		634	
Internal Service Funds		193	
Nonmajor Governmental Funds		1	
Total Nonmajor Enterprise Funds		828	
Total	\$ 169,308	\$ 169,308	

(amounts are expressed in thousands)

13. INTERFUND TRANSFERS (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

For the year ended September 30, 2002, the City made several significant one-time transfers. The Other Internal Services Fund made a \$4,125 one-time transfer to the Improvement Projects Fund to support the construction of a new automotive service center. In addition, the General Fund made a one-time transfer in the amount of \$650. This transfer was intended to provide initial funding for a new special revenue fund, the Brooks City-Base Fund. The Brooks City-Base Fund was created in order to consolidate all Brooks related funds for efficient internal control and monitoring.

Other significant transfers by the General Fund include \$615 set aside for the purchase of additional ladder trucks from fiscal year 2006 through fiscal year 2009. This is the second year that funds have been set aside for that purpose as the Master Plan recommended in fiscal year 2001 that \$615 in funds be set aside each year through fiscal year 2005. In addition, the General Fund continued its support to the Information Technology Services Fund for the GIS Program which will provide numerous computerized mapping applications in support of various departments. This year's transfer was in the amount of \$478.

The Enterprise Resource Management Fund was established in fiscal year 2001 to record all operating revenues and expenditures associated with the development and implementation of the new enterprise system. Funding is provided by transfers from the Improvement Projects Fund. This year's support totaled \$1,875.

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(amounts are expressed in thousands)

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the Government-wide Statement of Net Assets.

One element of this reconciliation states, "Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds." The detail of the \$31,435 is as follows:

Revenues previously reported as deferred in the fund financial statements	\$ 42,565
Receivable applicable to governmental activities, which are not available in the current period	565
Deferred revenues previously reported as income in the fund financial statements	<u>(11,695)</u>
Revenues collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are recognized in governmental funds	<u>\$ 31,435</u>

Another element of this reconciliation states, "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds". The details for the decrease related to capital leases is as follows:

Total capital leases reported on the Government-wide Statement of Net Assets	\$ 8,297
Less: Short-term available portion reported in fund financial statements	<u>(705)</u>

Net adjustment to decrease fund balance-total governmental funds to arrive at new assets-governmental activities for capital leases

\$ 7,592

The details for the decrease related to accrued interest is as follows:

Total Accrued Interest reported on the Government-wide Statement of Net Assets	\$ 7,966
Less: accrued interest reporting in the Internal Service Funds	<u>(2)</u>

Net adjustment to increase fund balance-total governmental funds to arrive at net assets-governmental activities for accrued interest

\$ 7,964

(amounts are expressed in thousands)

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the Government-wide Statement of Activities.

The details of the increase of revenues that do not provide current financial resources are as follows:

Revenues earned but not recorded in fund financial statements	\$ 5,763
Current year property tax revenue unavailable in current period	1,780
Less: Property taxes collected in current year previously earned	<u>(1,763)</u>

Revenues in the Statement of Activities that do not provided current financial resources and are not reported as revenues in the fund financial statements

\$ 5,780

The details of the increase of bond costs are as follows:

Issuance costs expended per fund financial statements	\$ 1,656
Less: amounts expended amounts attributable to current period	<u>(102)</u>
Total bonds costs	<u>\$ 1,554</u>

The details of the increase of bond premiums and deferred charges are as follows:

Amortization of bond premiums on long-term debt-Debt Service Fund, previously expensed in the fund financial statements \$ 12,624

Amortization of bond premiums on long-term debt-General Obligation Bonds previously expensed in the fund financial statements \$ 2,050

Amortization of bond premiums on long-term debt-nonmajor governmental funds previously expensed in the fund financial statements 4,385

Less: premiums on bonds and certificates not previously recorded in the fund financial statements (18,674)

Total amortization of bond premiums and deferred charges (net) \$ 385

(amounts are expressed in thousands)

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities (Continued)

Another element of this reconciliation states, "Some expenses reported in the Statement of Activities are not reported as expenditures in governmental funds." The details of the \$39,234 are as follows:

Compensated Absences	\$ (32,428)
Amortization Expense	265
Bond Refunding Expense	(5,887)
Interest Expense	(300)
Arbitrage Rebate Expense	(885)

Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.

\$ (39,235)

15. DEFICITS IN FUND BALANCES / NET ASSETS

Special Revenue Funds

As of September 30, 2002, deficit fund balance at year-end is reported in the HOME Program and Community Development Program in the amounts of \$33 and \$168, respectively. The deficit is attributable to projects for which reprogramming of HOME Program and Community Development Program funds will occur subsequent to year-end. Upon reprogramming of funds, the deficit fund balance will be fully funded.

The Golf Course Fund had a deficit fund balance of \$781 as of September 30, 2002. The deficit is attributable to a decline in revenues in recent years due to increased competition by the private sector and extreme weather patterns. In addition, increased labor and equipment costs have contributed to the deficit.

Internal Service Funds

As of September 30, 2002, deficit net assets at year-end are reported in the Employee Benefits Program, Workers Compensation Program, and Unemployment Compensation Self-Insurance Funds in the amounts of \$13,000, \$2,504, and \$229, respectively. The City will fund the deficits through assessments charged to various City funds in future years. Strategies such as cost containment programs including hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization are utilized to manage the rising costs of medical care.

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(amounts are expressed in thousands)

16. OTHER DISCLOSURES

A. Donor Restricted Endowment

The City of San Antonio has three permanent funds: the San Jose Burial Park Permanent Fund, the Carver Cultural Center Endowment Fund and the San Antonio Housing Trust Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these three endowment funds are classified as restricted net assets and are reported in the government-wide financial statements. The principal is required to be retained in perpetuity while the interest is available to cover specific expenditures.

The San Jose Burial Park Permanent Fund generated \$68 in interest to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery.

The Carver's Endowment Fund generated \$8 in interest. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated \$199 in interest. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of this trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed by, construed, regulated and administered in all respects under the laws of the State of Texas.

17. SUBSEQUENT EVENTS

A. Primary Government (City)

Sale of Refunding and New Money General Obligation Debt

On November 21, 2002, the City Council approved the sale of the following obligations:

- \$55,850 General Improvement and Refunding Bonds, Series 2002, maturing 2003 through 2023, with interest rates ranging from 2.000% to 5.000%.
- \$69,930 Combination Tax and Revenue Certificates of Obligation, Series 2002, maturing 2004 through 2023, with interest rates ranging from 3.000% to 5.000%.

Delivery of the proceeds from the 2002 obligations occurred on December 11, 2002. Proceeds of the Series 2002 obligations will be utilized to refund a portion of the City's outstanding tax supported debt and to finance general improvements to the City, including streets and pedestrian improvements, drainage improvements, parks and recreation facilities improvements, library system improvements, public safety improvements, improvements and renovations to existing municipal facilities, and for other public purposes.

(amounts are expressed in thousands)

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***City of San Antonio
Texas***

***Required Supplementary Information Other Than MD&A
(Unaudited)***

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***City of San Antonio
Texas***

Budgetary Comparison Schedule - General Fund

CITY OF SAN ANTONIO, TEXAS

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2002

	2002			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
Resources (inflows):				
Taxes	\$ 312,356,198	\$ 312,592,198	\$ 310,912,963	\$ (1,679,235)
Licenses and Permits	13,288,960	13,288,960	13,302,392	13,432
Intergovernmental	2,517,179	2,517,179	2,888,626	371,447
Revenues from Utilities	171,396,335	171,396,335	171,234,083	(162,252)
Charges for Services	24,346,744	25,078,687	24,631,495	(447,192)
Fines and Forfeits	13,121,897	13,121,897	10,828,974	(2,292,923)
Miscellaneous	14,468,642	12,977,011	12,054,469	(922,542)
Transfers from other funds	12,151,737	11,444,951	11,198,493	(246,458)
Amounts Available for Appropriation	563,647,692	562,417,218	557,051,495	(5,365,723)
Charges to Appropriations (outflows):				
General Government	66,430,184	69,351,827	57,213,168	12,138,659
Public Safety	347,042,322	354,820,409	351,557,071	3,263,338
Public Works	9,971,350	10,324,699	10,244,816	79,883
Sanitation	2,566,526	2,567,060	2,663,359	(96,299)
Health Services	13,696,002	13,716,542	14,076,213	(359,671)
Culture and Recreation	61,236,892	62,402,981	59,755,427	2,647,554
Welfare	17,475,534	18,317,676	17,662,015	655,661
Economic Development and Opportunity	6,722,970	8,323,656	7,632,008	691,648
Transfers to other funds	69,457,610	74,881,068	76,101,511	(1,220,443)
Total Charges to Appropriations	594,599,390	614,705,918	596,905,588	17,800,330
Excess (Deficiency) of Resources Over (Under)				
Charges to Appropriations	(30,951,698)	(52,288,700)	(39,854,093)	12,434,607
Fund Balance Allocation	30,951,698	52,288,700	39,854,093	(12,434,607)
Excess (Deficiency) of Resources Over (Under)				
Charges to Appropriations	\$ 0	\$ 0	\$ 0	\$ 0

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**Sources/inflows of resources:**

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.

\$ 557,051,495

Differences - budget to GAAP:

Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.

(11,198,493)

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.

\$ 545,853,002

Uses/outflows of resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.

\$ 596,905,588

Differences - budget to GAAP:

Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.

(3,350,459)

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.

(76,101,511)

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.

\$ 517,453,618

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function and activity within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City's prepares an annual budget for the General Fund on a modified accrual basis which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year end.



***City of San Antonio
Texas***

Pension Schedules

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

FIRE AND POLICE PENSION PLAN—CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-01	\$ 1,285,936	\$ 1,539,932	\$ 253,996	84%	\$ 179,554	141%
10-01-00	1,181,582	1,339,954	158,372	88%	168,944	94%
10-01-99	1,031,786	1,256,746	224,960	82%	162,892	138%

TEXAS MUNICIPAL RETIREMENT SYSTEM—CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL (1)	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-01	\$ 412,867	\$ 532,821	\$ 119,954	78%	\$ 189,495	63%
12-31-00	388,462	499,824	111,362	78%	168,040	66%
12-31-99	371,118	475,605	104,487	78%	154,797	67%

CITY PUBLIC SERVICE ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-01	\$ 713,600	\$ 643,500	\$ (70,100)	111%	\$ 165,300	(42)%
01-01-00	648,100	610,800	(37,300)	106%	148,900	(25)%
01-01-99	563,400	565,000	1,600	100%	138,500	1%

NOTES: (1) Abstracted from City payroll records.

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-01	\$ 44,613	\$ 55,201	\$ 10,588	81%	\$ 51,958	20%
12-31-00	44,206	53,974	9,768	82%	51,312	19%
12-31-99	40,495	49,140	8,645	82%	48,145	18%

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-01	\$ 31,341	\$ 40,797	\$ 9,457	77%	\$ 51,050	19%
01-01-00	26,417	46,229	19,812	57%	48,202	41%
01-01-99	23,553	45,391	21,838	52%	48,183	45%

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST THREE FISCAL YEARS

FIRE AND POLICE PENSION - CITY OF SAN ANTONIO				TEXAS MUNICIPAL RETIREMENT SYSTEM - CITY OF SAN ANTONIO			
YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED	YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED		
9/30/02	\$	100%	9/30/02	\$	100%		
9/30/01	43,615	100%	9/30/01	23,147	100%		
9/30/00	42,065	100%	9/30/00	21,610	100%		
	40,238	100%		19,352	100%		

CPS ALL EMPLOYEE PLAN

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
1/31/02	\$	100%
1/31/01	660	100%
1/31/00	5,397	100%
	12,288	100%

SAN ANTONIO WATER SYSTEM - TMRS

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION
12/31/01	(1) \$
5/31/01	1,044
5/31/00	1,620
5/31/99	1,593
	1,576

SAN ANTONIO WATER SYSTEM - PMLIC

YEAR ENDED DATE	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
12/31/01	(1) \$	100%
5/31/01	2,969	100%
5/31/00	2,770	100%
5/31/99	4,753	100%
	3,344	100%

NOTES: (1) Contribution reflects for the seven months ended December 31, 2001, to coincide with San Antonio Water System new fiscal year end.

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

CITY OF SAN ANTONIO, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
NOTES TO SCHEDULES OF FUNDING PROGRESS

	<u>FIRE AND POLICE PENSION FUND</u>	<u>TMRS - CITY AND SAWS</u>	<u>CPS ALL EMPLOYEE PLAN</u>	<u>PMLIC SAWS</u>
Actuarial Cost Method	Entry-age	Unit Credit	Unit Credit	Entry-age
Method Used to Value Assets	5 year smoothed	Amortized Cost	5 year smoothed	Amortized Cost
Assumed Inflation Rate	4.5%	None	4.0%	None
Assumed Investment Return	8.0%	8%	8.5%	8.5%
Assumed Projected Salary Increases	5.5%	None	5.0%	APH plus 3.4%
Assumed Postretirement Salary Increases	3.3750% to 4.5%	None	2.0%	None
Amortization Method	Level % of payroll	Level % of payroll	Level dollar	Level dollar
Amortization Period	27.04 years	25 years	9.89 years	39 years
Open/Closed Period	Open	Open	Open	Closed

(1) Table S-5 from the Actuary's Pension Handbook

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APPENDIX D

FORM OF CO-BOND COUNSEL OPINION

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Fulbright & Jaworski L.L.P.
300 Convent Street, Suite 2200
San Antonio, Texas 78205

Escamilla & Poneck, Inc.
711 Navarro, Suite 100
San Antonio, Texas 78205

FINAL

IN REGARD to the authorization and issuance of the “City of San Antonio, Texas Municipal Drainage Utility System Revenue Bonds, Series 2003” (the *Bonds*), dated May 1, 2003, in the aggregate principal amount of \$44,150,000, we have reviewed the legality and validity of the issuance thereof by the City of San Antonio, Texas (the *City*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof, and have stated maturities of February 1 in each of the years 2004 through 2022, February 1, 2025, and February 1, 2028, unless optionally or mandatorily redeemed prior to stated maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance authorizing the issuance of the Bonds (the *Ordinance*).

WE HAVE SERVED AS CO-BOND COUNSEL for the City solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and with respect to the exemption of the interest on the Bonds from federal income taxes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City or the City’s municipal drainage utility system and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the City’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED, and in rendering the opinions herein we rely upon, original or certified copies of the proceedings of the City Council of the City in connection with the issuance of the Bonds, including the Ordinance; customary certifications and opinions of officials of the City; certificates executed by officers of the City relating to the expected use and investment of proceeds of the Bonds and certain other funds of the City, and to certain other facts within the knowledge and control of the City; and such other documentation, including an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding special obligations of the City enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or

Legal Opinion of Fulbright & Jaworski L.L.P. and Escamilla & Poneck, Inc. in connection with the authorization and issuance of "CITY OF SAN ANTONIO, TEXAS MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE BONDS, SERIES 2003"

other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from and equally and ratably secured solely by a first lien on and pledge of the Revenues (as defined in the Ordinance) derived from the operation of the City's municipal drainage utility system. In the Ordinance, the City retains the right to issue Additional Bonds (as defined in the Ordinance) without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the City, except with respect to the Revenues. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon the representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

WE CALL YOUR ATTENTION TO THE FACT THAT, with respect to our opinion in clause (2) above, interest on all tax-exempt obligations, such as the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a mutual fund, a financial asset securitization investment trust, a real estate mortgage investment conduit, or a real estate investment trust. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Legal Opinion of Fulbright & Jaworski L.L.P. and Escamilla & Poneck, Inc. in connection with the authorization and issuance of "CITY OF SAN ANTONIO, TEXAS MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE BONDS, SERIES 2003"

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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APPENDIX E

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation

Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest: _____

Assistant Secretary

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

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